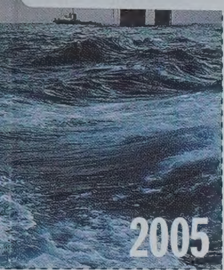


BOW VALLEY ENERGY LTD. Annual Report

gaining momentum

Bow Valley Energy Ltd.

2005

BOW VALLEY ENERGY LTD. Annual Report

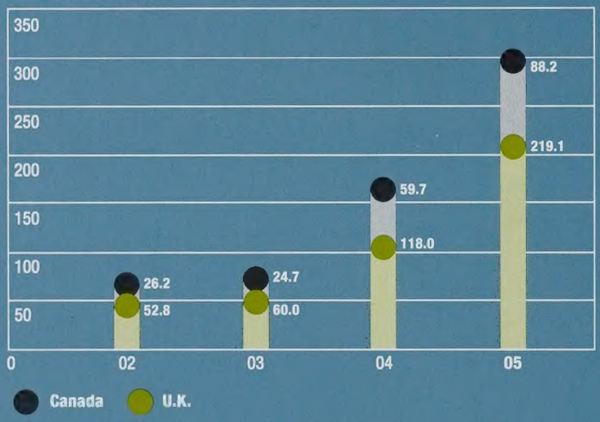
Corporate Profile Bow Valley Energy Ltd. is an international energy company that operates primarily in the U.K. North Sea and western Canada. We are engaged in full-cycle exploration and production, including: land purchase; seismic acquisition and interpretation; drilling; facilities and pipeline construction; and the production of oil and natural gas. Our strategy balances higher-risk exploration with lower-risk development and the acquisition of producing properties. We are committed to pursuing this strategy while maintaining a strong financial position. Bow Valley's common shares trade on the Toronto Stock Exchange under the symbol BVX.

Annual Meeting Bow Valley Energy Ltd. is pleased to invite its shareholders and other interested parties to attend its Annual General Meeting to be held at the Metropolitan Centre, 333 – 4 Avenue S.W., Calgary, Alberta, Canada on Thursday, May 18, 2006 commencing at 3:00 pm. For those shareholders unable to attend the meeting, please complete and return your Form of Proxy.

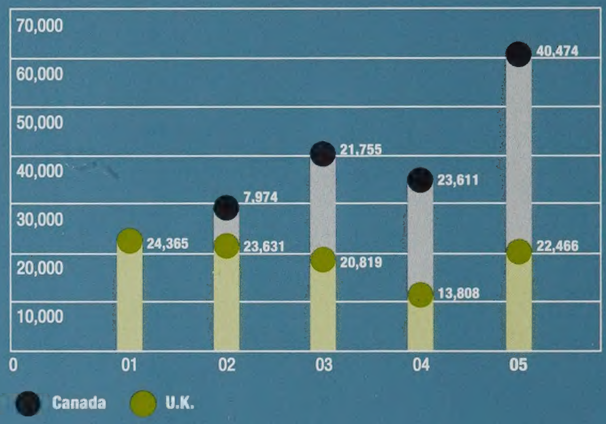
Momentum Bow Valley Energy has a clear and deliberate strategy to become an international, intermediate-sized exploration and production company. The Company has been on that track for a number of years, steadily overcoming the challenges and hurdles that accompany operating internationally while building a base in western Canada. As with many things in life, a solid sustained effort often creates considerable momentum when it gets going. And that would describe Bow Valley. After many years of hard work, we are seeing our plans realized and rewards delivered. Today we can safely say we are creating sustainable shareholder value by building on the strengths of our highly skilled technical team and our diversified asset base in Canada and the United Kingdom.

Statistical Review

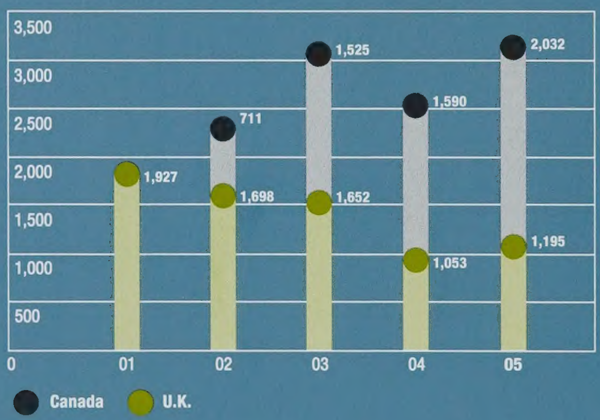
NPVBT ($ millions)



Operating Revenue ($000s)



Production (boe/d)



Funds Flow from Operations ($000s)

Highlights

$000 except where noted	2005	2004	% change
Financial			
Revenue	62,940	37,419	68%
Cash flow	32,054	14,741	117%
Basic per share *($/share)*	0.49	0.23	113%
Diluted per share *($/share)*	0.47	0.23	104%
Earnings (loss)	6,478	(3,201)	302%
Basic per share *($/share)*	0.10	(0.05)	300%
Diluted per share *($/share)*	0.10	(0.05)	300%
Working capital (deficit)	(4,759)	(16,023)	(70%)
Shares *(000)*			
Basic	69,225	64,642	7%
Outstanding options	5,034	4,305	17%
Weighted average – basic	65,693	64,578	2%
– diluted	67,589	64,920	4%
Operating			
Daily production			
Crude oil and NGL *(bbl/d)*	1,091	697	57%
Natural gas *(mmcfd)*	12.8	11.6	10%
Oil equivalent *(boe/d)*	3,227	2,643	22%
Prices			
Crude oil and NGL *($/bbl)*	60.25	44.04	37%
Natural gas *($/mcf)*	8.34	5.94	40%
Oil equivalent *($/boe)*	53.49	37.98	41%
Reserves			
Proved			
Crude oil and NGL *(mbbls)*	3,741	865	332%
Natural gas *(bcf)*	19.2	19.2	0%
Oil equivalent *(mbbls)*	6,937	4,067	71%
Proved and Probable			
Crude oil and NGL *(mbbls)*	10,985	11,896	(8%)
Natural gas *(bcf)*	37.2	38.1	(2%)
Oil equivalent *(mbbls)*	17,178	18,246	(6%)
Undeveloped land **(net acres – 000)**			
U.K.	79,138	41,600	90%
Canada	59,552	50,796	17%

Letter to Shareholders

Gaining Momentum! There is an old adage that says you must first learn to walk before you can run. Bow Valley has been following an organized, long-term, strategy to establish the foundation for a growing and profitable international exploration and production company. That effort has created a balanced asset portfolio located in the United Kingdom and western Canada. Production volumes have grown from 667 boe per day in the year 2000 to current rates of approximately 3,000 boe per day. Our initial steps have been methodical and deliberate, and the effort is gaining momentum as new development projects in the U.K. and exploration success in western Canada should increase production volumes towards 10,000 boe per day by 2008. At 10,000 boe per day, the Company will have the necessary operational depth and financial momentum to support a sustainable and aggressive exploration program, both in western Canada and internationally. The Company is building the foundation and gaining the momentum from which it can truly run.

PROGRESS

Financial and operational results in 2005 improved significantly during the year, although much of the progress made will not impact the Company's financial results for 12 to 18 months. Our most significant decision during the year was to advance the development of three discoveries in the U.K. North Sea. Field Development Plans for each of the Blane, Enoch and Chestnut fields were approved by government authorities, and these project developments are now advancing towards first oil. The Blane field will be developed by drilling three additional wells and installing pipelines connecting the wells to an existing offshore platform located at Ula, in the Norwegian sector of the North Sea. At Enoch, a similar development will have one well drilled in 2006 and a new pipeline connecting the well to an offshore platform at Brae, in the U.K. sector of the North Sea. Thirdly, the development at Chestnut is advancing with the drilling of one well in 2006 and construction of an offshore floating production system that will be positioned over the Chestnut field in mid 2007. Initial production volumes from the Blane, Enoch and Chestnut project developments is estimated at 18,000 (2,250 net), 15,000 (1,800 net) and 10,000 (1,500 net) boe per day respectively. Most of the third party services necessary to complete these projects have been contracted and timing of first oil production from each project is scheduled to occur in the next 12 to 18 months. In addition, Bow Valley has arranged all of the necessary financing to fund its share of capital expenditures. A fourth field development at Ettrick is currently being discussed by the partners and the Company expects to report on a Field Development Plan in early 2006.

It is management's intention to become much more active in international exploration, financed from internally-generated funds as our programs expand and provide increased revenue and cash flow. The Company initiated a U.K. exploration program in 2005 that resulted in adding three exploration blocks to the Company's exploration portfolio. The Company has also taken the strategic path of becoming an operator of these projects with a significantly higher working interest ranging between 70% to 100%.

In western Canada, exploration efforts have primarily encompassed a relatively low risk, moderate reward program designed to deliver consistent production growth. As the Canadian production base becomes sustainable and diversified, the risk profile of our Canadian drilling program will be expanded to include selected higher risk and high reward prospects and opportunities. The program will remain balanced and weighted toward finding natural gas, whereas the program in the U.K. is largely focussed on adding light oil reserves.

2005 OPERATIONS

In western Canada, the Company made substantial progress towards achieving its 2005 goals albeit industry-wide challenges did impact some results. Weather patterns that included a wet spring and late start to the winter drilling season, dependency on third-party infrastructure, combined with tight availability of equipment and services all affected our ability to add production volumes within the forecasted timeframe. The Company retains a drilling rig under contract for 2006 and management is confident that we can drill the budgeted 30 to 35 well program in the current year.

In the U.K., production from the Kyle field was redirected to the Ramform Banff FPSO under more favourable contract terms than existed at the Curlew FPSO. This will result in a substantial improvement in operating costs of approximately $15 per barrel. Negotiations with each of the U.K. field development projects at Blane and Enoch have also focussed on achieving low operating costs which should result in Bow Valley realizing some of the highest netbacks in the U.K offshore.

OUTLOOK

It is an exciting time for the Company as three development projects in the U.K. are now under way and a fourth project nearing sanction. The western Canadian exploration program is gaining momentum with continued drilling success and results. The financial position of the Company is strong and the necessary financial resources are in place to fund the Company's ambitious plans. The direction of oil and gas prices is always a debate and remains volatile; however the Company's U.K. projects are economically robust and would be able to withstand a downturn in energy prices.

The oil and gas industry is working at capacity and access to third party contract services such as drilling rigs, seismic crews and construction contractors is becoming more difficult to budget from a time and cost perspective. The Company is emphasizing forward planning of its field operations and long-lead items and services are being contracted well in advance, providing more confidence in our budget and forecast process.

The Company is building an exciting international exploration portfolio and has made a significant step in becoming an operator for much of the offshore U.K. exploration program. The Company expects to drill at least two operated international exploration wells in mid 2007, adding significant upside to the current exploration program in western Canada where we plan to drill 30 to 40 wells per year. Building on the success and development of the Company's activities, both in the U.K. and western Canada, provides the foundation from which we can create a self-financed, sustainable, international exploration and production Company.

ACKNOWLEDGMENT

Bow Valley's accomplishments would not be possible without the dedication, hard work and perseverance of its employees and consultants. In addition, the guidance and direction provided by the board of directors has been invaluable and the Company's corporate governance practices are considered equal to or better than normal standards. I thank everyone for their contribution to the Company's many accomplishments and look forward to pursuing even greater success in the future.

TRIBUTE

It is with great sadness that we report Mr. Kenneth R. Stiles, a director of Bow Valley Energy Ltd., passed away on February 24, 2006. Ken was instrumental with the concept of incorporating Bow Valley Energy Ltd. in 1997 and he served as an officer and director of the Company at that initial stage. His continued guidance and support during the past nine years has been a key factor in the Company's success. Ken had the vision of building an emerging, international energy company and Bow Valley's success will be in part, his legacy. Ken will be sorely missed and we express our condolences to his wife and family.

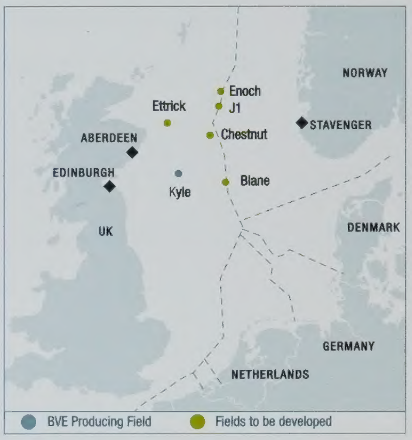
R.G. Moffat

President and Chief Executive Officer

February 27, 2006

A series of major oil discoveries in the 1970s made the North Sea one of the world's most important oil producing regions. During the 1980s and 1990s, North Sea oil production continued to grow, peaking in 1999. As the basin has matured, the average discovery size has fallen from the peak of over 500 million barrels per discovery in the early 1970s, to 50 to 100 million barrels through the 1980s to less than 50 million barrels per discovery today.

u.k. north sea



While a discovery of 50 million barrels is generally not large enough to be material to the major oil and gas companies, it is material to a smaller company the size of Bow Valley. As major oil companies re-direct their investments to other jurisdictions and withdraw from the U.K., it leaves numerous opportunities for the remaining companies. These opportunities come in the form of development of previously overlooked discoveries, exploration and acquisitions of producing assets.

Recent higher world oil prices have led to a resurgence of activity with numerous new entrants to the North Sea oil and gas sector. While it is unlikely that this increased activity will reverse the trend of declining U.K. production, many new fields remain to be developed that will offset the rate of decline. It is estimated by the U.K. government that approximately 28 billion barrels of oil, equivalent to all of the oil produced to date, remains to be discovered in the U.K. sector of the North Sea.

2005 was marked by numerous accomplishments for Bow Valley. The Company: received field development approvals from the appropriate government agencies for the development of three

projects; acquired three operated exploration blocks through government bid rounds and acquisition from industry competitors; completed the tie-back of Kyle production to the Ramform Banff, resulting in significantly reduced operating costs and a more sustainable production profile; and arranged bank lines suitable to finance the development projects, ongoing activities at Kyle as well as initial exploration activities. We also built on previous successes and moved closer to the goal of becoming a sustainable North Sea oil and gas production company, with a well-funded, significant exploration program.

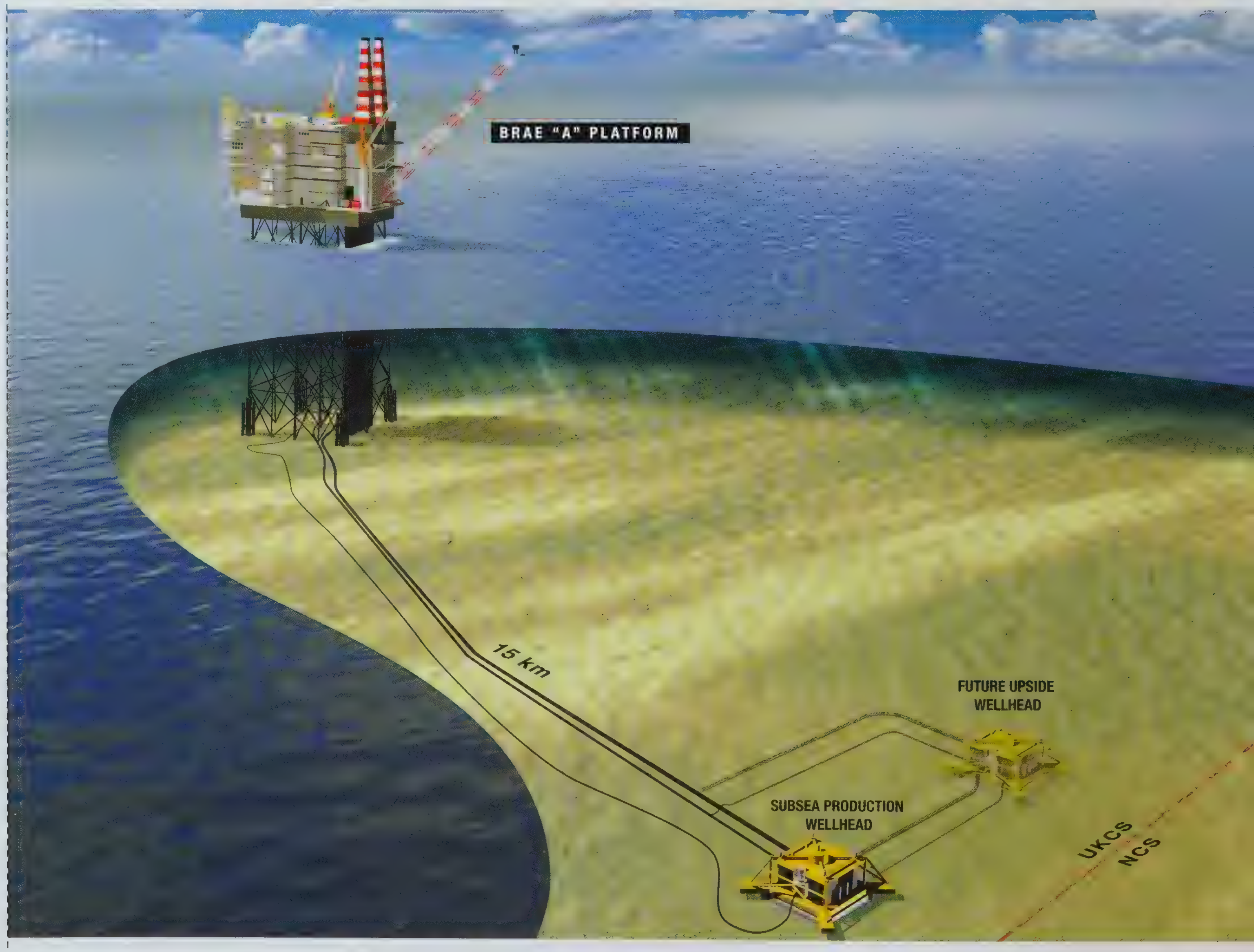
Our strategy is to develop smaller, existing discoveries that have been neglected by the major oil companies combined with exploring for new discoveries within proven fairways of previous discoveries and near existing infrastructure that would facilitate subsea tie-back options. The size of the fields in Bow Valley's development projects are typically 20 to 40 million barrels whereas the exploration effort is focussed on targets with potential for 50 to 200 million barrels.

Bow Valley continues to evaluate and bid on appropriate acquisition opportunities, however, the Company is committed to doing so in a disciplined manner in order to ensure that any proposed transaction would create value for shareholders.

FIELD ACTIVITY SUMMARIES

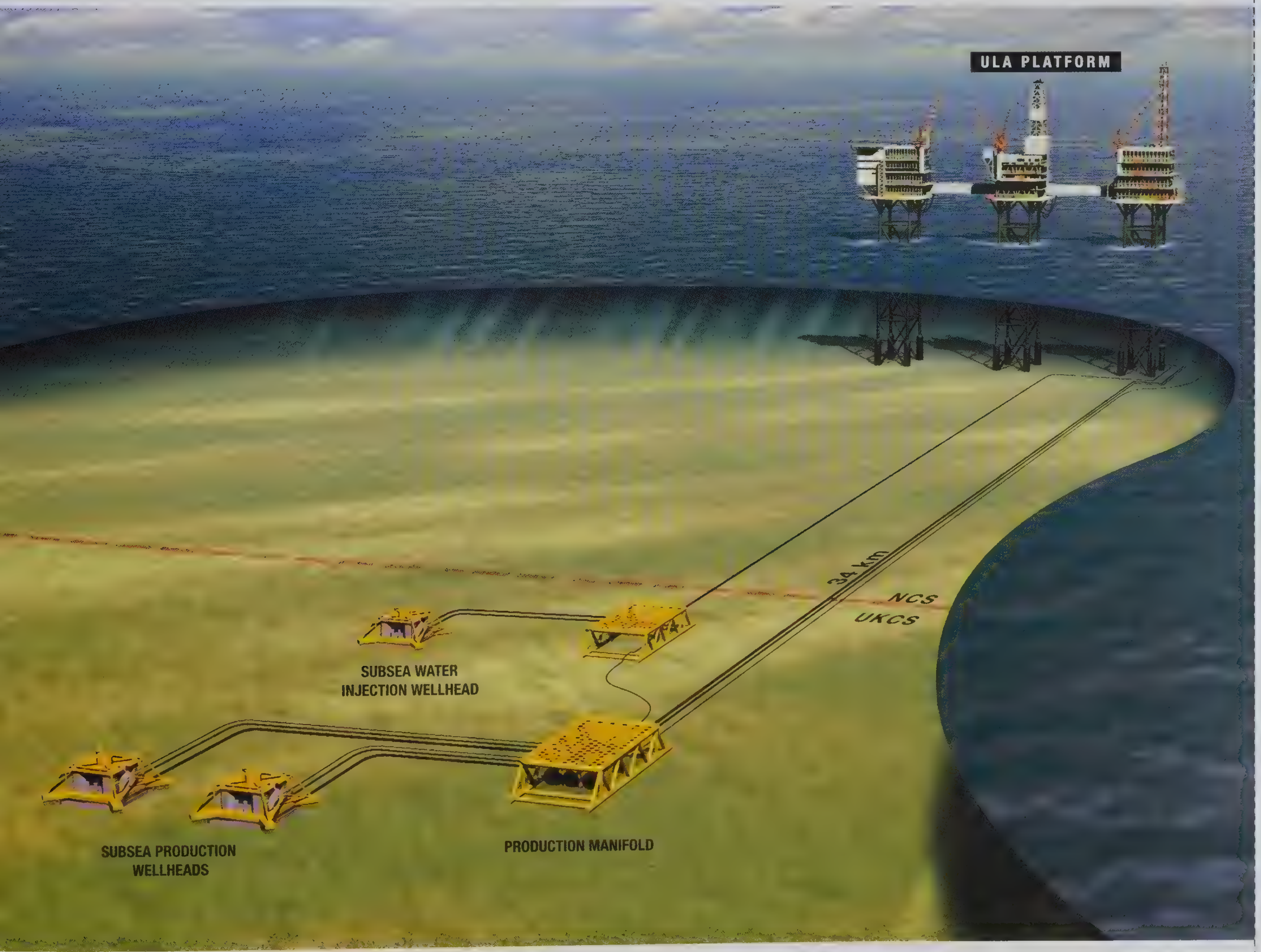
ENOCH

- Working interest – 12.00%
- U.K. and Norwegian governments granted field development approval in July 2005
- Current expectations include development costs of less than C$11.00 per boe, operating costs of less than C$6.00 per boe and no government royalty
- First production is scheduled in Q4 2006



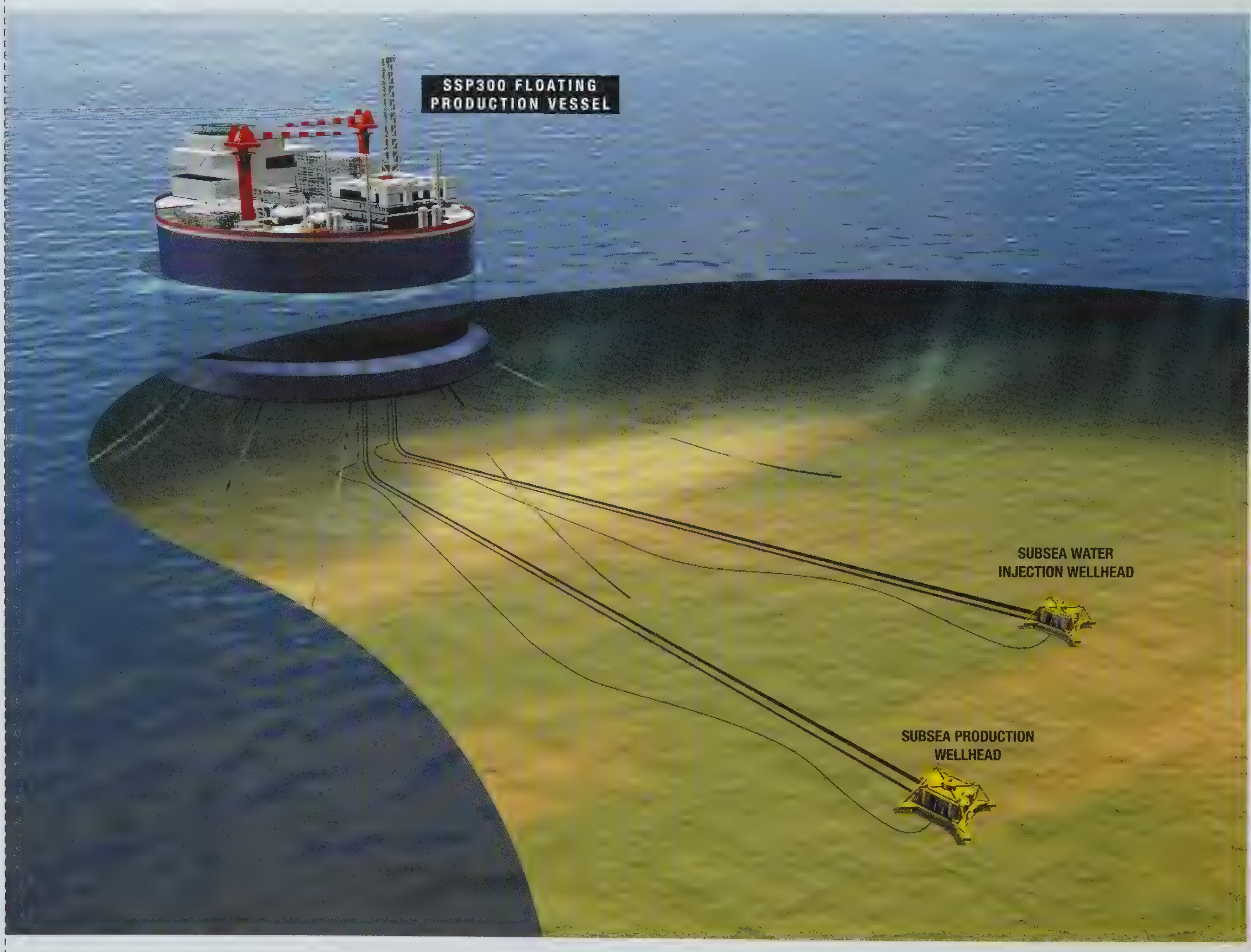
BLANE

- Working interest – 12.50%
- U.K. and Norwegian governments granted field development approval in July 2005
- Current expectations include development costs of C$12.00 per boe, operating costs of less than C$6.00 per boe and no government royalty
- First production is scheduled for Q4 2006 to Q1 2007



CHESTNUT

- Working interest – 15.125%
- U.K. government granted field development approval in October 2005
- Will be developed using new Floating Production Storage and Offload Vessel (FPSO) technology - a cylinder shaped floating vessel called SSP300 (Sevan Stabilized Platform) with production capability of 30,000 barrels per day and storage capacity of 300,000 barrels
- The advantage of this new technology is expected lower costs relative to a traditional FPSO development
- Current expectations are for development costs of C$8 per barrel and operating costs of C$10 to $20 per barrel
- First production is scheduled for mid-2007



ETTRICK

- Working interest – 12.00%
- Operator has prepared and submitted a Field Development Plan for government approval expected during the first half of 2006
- Key elements of the plan include three producing wells and one water injection well with two contingent water injection wells as part of a second phase, and production, injection and gas lift pipelines tied to an FPSO
- Development costs are expected to be C$11.00 per boe with operating costs of approximately C$15 to $20 per boe
- First production is expected towards early 2008

KYLE

- Working interest – 14.29%
- Tied-back production to the Ramform Banff and terminated the fixed cost contract with the Maersk Curlew resulting in a material improvement over previous operating costs and significantly extending the economic field life
- Began planning for implementation of gas lift, which should improve production reliability
- Began analysis of opportunities for further development drilling

J1

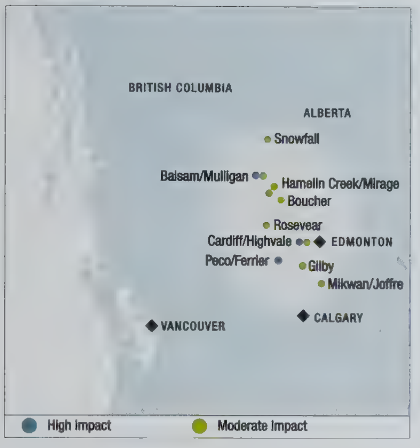
- New probable reserve additions have been included in 2005 total reserves as field economics improve with rising U.K. natural gas prices

EXPLORATION

- Acquired 70% working interest and operatorship in block 16/27a North from a major oil company
- Acquired 100% working interest in blocks 16/27c and 9/28b in the U.K. 23rd Offshore Oil and Gas Licensing Round
- Plan to drill one exploration well in 2006
- Tentative plans to drill at least two operated exploration wells in 2007
- Continuing to evaluate new exploration opportunities including new offshore licensing rounds, farm-ins and purchases of new exploration acreage

Canada remains one of the most competitive oil and natural gas basins in the world which has led to record activity levels in western Canada. The reasons for this competitive environment are numerous, including the prospect of significant remaining reserves and good access to mineral rights, infrastructure and markets; stable fiscal and political regime; access to capital; relatively large well-trained and entrepreneurial work force; and a transparent regulatory process. Offsetting some of these positives are the challenges associated with operating in such an active and competitive environment. Increased demands for services, higher costs and time delays are becoming an issue for all industry players, including Bow Valley.

western canada



Attracting and retaining personnel, securing contractors, service providers and equipment will, for the foreseeable future, continue to be a challenge. In addition, stakeholder issues, obtaining regulatory approvals and access to surface lands, particularly when linked to sour gas or oil operations, have become more time consuming, leading to delays in bringing production on-stream. Bow Valley continues to actively manage these challenges by taking a long-term approach to planning as evidenced through our contracting of a drilling rig and efforts to build strategic relationships with service providers.

Management continues to believe that it can add value for shareholders in western Canada and grow Canadian production volumes by 25% to 30% per year. These objectives are achievable by maintaining the direction set out in our strategic plan for western Canada that was developed in 2002. This plan identified the opportunity to create and build a sustainable, profitable growth model, focused on full and short-cycle natural gas exploration, while managing risk through drilling multi-zone targets to moderate depths in the West-Central and Peace River Arch areas of Alberta. Given the highly competitive environment, the growth of our western Canadian program has been deliberate, with a balanced approach to risk and a managed approach to investment. In 2005, Bow Valley uncovered new opportunities and continued to execute its exploration-based growth plan in the face of the new challenges outlined previously. The Company continues to grow its drilling inventory, which now stands at 75 prospects, representing an approximate two-year drilling inventory. This inventory will allow Bow Valley to continue to actively manage risks through portfolio management, with more flexibility to add areas of greater opportunity, while de-emphasizing areas that do not offer the same level of economic returns.

Our exploration strategy will continue to evolve as we expand and diversify the asset base and position the Company to withstand a higher level of risk. This evolution will lead Bow Valley to pursue larger exploration targets at higher working interests. This evolution of the strategy is expected to lead to higher rewards. The hallmark of the strategy will remain a focus on sustainable and profitable growth.

OVERALL RESULTS

The Company drilled 21 (15.8 net) wells, resulting in 11 (7.1 net) natural gas wells, three (2.5 net) oil wells, three (2.6 net) suspended wells and four (3.6 net) abandoned wells, for a success rate of 67% (61% net). Although not commercial at year-end, all three suspended wells have uncompleted zones from which a commercial result is anticipated – which could increase the success rate to 81% (75% net). One low working-interest location was farmed out to an industry partner resulting in a natural gas well, at no cost to Bow Valley.

We continue to diversify our asset base in Canada, thus improving the Company's risk profile. The drilling success outlined above yielded a more diversified portfolio of producing assets in new areas and various producing horizons. New opportunities have emerged in areas such as Ferrier, Boucher and Lac St. Anne, and in some older established areas such as Balsam, Mulligan and Mikwan, all within Alberta.

FIELD ACTIVITY SUMMARIES

HAMELIN CREEK

- Currently Bow Valley's largest Canadian producing area by volume
- Drilled one natural gas well in 2005
- Completed third-party pipeline looping in early 2005, resulting in increased gathering capacity
- Additional exploitation is expected in 2006

BALSAM/MULLIGAN

- Drilled five wells resulting in two natural gas wells and two oil wells
- Fracture stimulated a previously suspended well resulting in a commercial oil discovery
- Increased area production from 13 boe per day in late 2004 to early 2006 levels of 275 boe per day
- Will continue to focus on Cretaceous and Triassic exploration and exploitation

CARDIFF/HIGHVALE/LAC ST. ANNE

- Drilled two natural gas wells and reactivated a previously shut-in oil well
- Added processing of new third-party natural gas volumes resulting in reduced operating costs and permitting re-activation of a previously shut-in oil well
- Fracture stimulated a well to remove damage and restore natural gas productivity at key producer
- Participated in multi-section 3-D seismic program targeting a high impact play
- Will continue to pursue the area in 2006

MIRAGE

- Drilled one natural gas well in 2005

ROSEVEAR

- Drilled two successful natural gas wells plus one suspended well
- Added 100% Company owned infrastructure to a third party plant site
- Developed a significant prospect inventory with multi-year activity anticipated

BOUCHER

- Drilled one natural gas well and tied another well in for production
- Installed a compression facility
- Additional exploration activity planned in 2006

GILBY

- Drilled three natural gas wells plus one suspended well
- Successfully re-completed a suspended well for natural gas production
- Farmed-out one low working interest well resulting in one natural gas well
- Will continue to pursue additional opportunities in the area including Cretaceous and Jurassic drilling targets

MIKWAN/JOFFRE

- Drilled one significant multi-zone oil well and one suspended well
- Will pursue additional multi-zone opportunities in the area

EARRING

- Acquired additional working interest in a Company-owned natural gas well and successfully re-completed for uphole natural gas production
- Further opportunities are being pursued within existing well bores
- 30% working interest in infrastructure continues to provide strategic value-added opportunities

SNOWFALL

- Developed a significant area presence originating from a 2004 discovery
- Good prospectivity and infrastructure in area
- Targeting to drill three wells in early 2006

FERRIER

- Acquired 100% working interest lands and significant 3-D seismic survey
- Will pursue high impact exploration in 2006

PECO

- Acquired two sections of land and a large 3-D seismic survey
- Will pursue a deep, high impact target in 2006

Health, Safety and Environment

Bow Valley's goal is to implement and maintain high standards of health, safety and environmental performance in our operations. During the past year, we undertook active operations both in western Canada and the U.K. offshore. Our health, safety and environmental programs and policies are relatively new and continue to evolve, and our employees are committed to their implementation. The Company operates in a manner designed to ensure the health and safety of its employees, contractors and the public, and minimize adverse effects on the environment. We are committed to:

- providing practical health, safety and environmental policies and programs for all employees and contractors;
- preparing emergency response procedures that allow personnel to respond promptly and effectively to emergencies;
- establishing training programs designed to ensure employees receive appropriate training relative to their job function;
- considering good safety performance in the process of selecting contractors, suppliers and other services;
- establishing monitoring procedures designed to ensure our operations are conducted in compliance with applicable laws and Company standards; and
- establishing reporting and investigation procedures for all injuries, serious incidents and environmental concerns.

Bow Valley has been an active operator in western Canada since 2002 with the commencement of our drilling program. We set targets of no accidents and minimal impact to the environment, and these goals were achieved over the course of the year. The Company is a member of the Canadian Association of Petroleum Producers' (CAPP) Environment, Health and Safety Stewardship initiative. As such, we are committed to the continuous improvement of our environment, health and safety performance. We are continuing to implement and plan initiatives to enhance our performance, including third-party rig and field-facility inspections; and safety-training assessments and upgrading programs for all field employees and contractors.

The broadening scope of our operations has necessitated a greater focus on the effect of our operations on the environment. We recognize the diversity of opinion that now exists among stakeholders, in particular those we connect with in rural areas, regarding the environmental effect of oil and natural gas activities. Bow Valley is committed to responding to stakeholder concerns. While we may not always share the same opinion, we recognize that positive, two-way communications and a willingness to consider project design alternatives can play an important role in providing an effective response and in reducing our effect on the environment.

As an exploration operator in the U.K., Bow Valley will be applying for membership in the U.K. Offshore Operators Association (UKOOA). UKOOA is the representative organisation for the U.K. offshore oil and natural gas industry, whose members are licensed by the government to explore for and produce oil and natural gas in U.K. waters.

Bow Valley, as with all offshore operators active in the exploration and production of oil and natural gas in the U.K. Continental Shelf, will also be party to a voluntary oil pollution compensation scheme known as the Offshore Pollution Liability Agreement (OPOL). Under OPOL, operating companies agree to accept strict liability for pollution damage and the cost of remedial measures. OPOL applies to all offshore facilities from which there is risk of a discharge of oil causing pollution damage.

Management Biographies

ROBERT G. MOFFAT

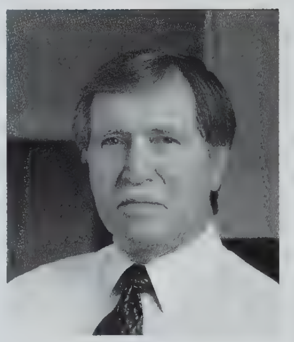
PRESIDENT. CHIEF EXECUTIVE OFFICER AND DIRECTOR

Mr. Moffat is President, Chief Executive Officer and a Director of Bow Valley Energy Ltd. Mr. Moffat graduated from Queen's University, Kingston, Ontario, Canada in 1977. From 1995 to 2001, he was President, Chief Executive Officer and Director of Courage Energy Inc. From 1992 through 1995, he was President of Springsyde Resources Ltd., a company he founded and which later became Courage Energy Inc. through an amalgamation and name change in 1995. Prior thereto, he was Vice President and Director of Highridge Exploration Ltd. Mr. Moffat has been instrumental in directing corporate growth through oil and natural gas exploration in Canada, the United States and internationally. Mr. Moffat was recently a Governor of the Canadian Association of Petroleum Producers (CAPP) and was the Chairman of the Public Affairs Executive Policy group.

JOHN W. ESSEX

VICE PRESIDENT, OPERATIONS

Mr. Essex, P.Eng., is Vice President, Operations of Bow Valley Energy Ltd. After graduating from the University of British Columbia with a B.A.Sc. degree in geological engineering, Mr. Essex began his career as a reservoir engineer at Shell Canada in 1975. He has over 30 years of diversified oil and gas industry experience. For the past 20 years, he has held the senior production role at various Calgary-based oil and gas companies. In this capacity, Mr. Essex has had responsibility for the production, operations, safety/environment, engineering, marketing and property A&D functions and has successfully applied his expertise in the areas of asset optimization, reservoir management/analysis and property evaluation.



DAVID A. FLEMING

VICE PRESIDENT, INTERNATIONAL

Mr. Fleming, P.Eng., is Vice President, International of Bow Valley Energy Ltd. He joined Bow Valley in 1997 following 30 years in a number of engineering and management positions with the Shell group of companies in Canada, Australia and Oman. His experience covers research and development, natural gas marketing, project development and project management, latterly as general manager during the initial phase of development of a major LNG facility in Oman. Mr. Fleming has held the position of Managing Director, Bow Valley Petroleum (UK) Limited since 2001. He is also responsible for the Balal project, offshore Iran.

MATTHEW L. JANISCH

VICE PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER

Mr. Janisch, B.Sc., MBA, is Vice President, Finance and Chief Financial Officer of Bow Valley Energy Ltd. Mr. Janisch graduated with a Masters of Business Administration from the University of Western Ontario in 1991 and with a B.Sc. (Petroleum Engineering) degree from the University of Alberta in 1984. He has 20 years of experience in banking, corporate finance, capital markets and oil and gas research and engineering. Most recently, Mr. Janisch was Managing Director of Oil and Gas Equity Research at a major Canadian bank, where his responsibilities included equity coverage of senior domestic and international E&P companies as well as commodity price forecasting. He also has extensive experience in investment banking within the oil and gas sector, including debt and equity issues as well as mergers and acquisitions. Mr. Janisch has spoken at numerous oil and gas conferences.

THOMAS J. RUISSEN

VICE PRESIDENT, EXPLORATION

Mr. Ruissen is Vice President, Exploration of Bow Valley Energy. He has 23 years of progressive oil and gas industry experience focused on the Western Canadian Sedimentary Basin. Since his graduation in 1982 from the University of British Columbia with a B.Sc. (Geology) degree, Mr. Ruissen has held positions of increasing responsibility with Amoco Canada Petroleum Co. Ltd., Rigel Oil & Gas Ltd. and Baytex Energy Ltd. He has held management and senior management positions for the past nine years. In these positions, Mr. Ruissen has led exploration-oriented, multi-disciplinary units charged with providing economic growth of light oil and natural gas reserves and production. His responsibilities have included overseeing group performance, technical proficiency, operational efficiency and providing strategic direction. He has provided leadership, mentoring, direction and focus to the units while continuing to function as a prospect generator.

NICK J. FAIRBROTHER

DIRECTOR, INTERNATIONAL BUSINESS DEVELOPMENT

Mr. Fairbrother is Director, International Business Development of Bow Valley Energy Ltd. He has 29 years of diverse oil and gas experience in the North Sea. Since his graduation in 1977 from Birmingham University with a B.Sc. (Chemical Engineering) degree, Mr. Fairbrother has held technical and management positions of increasing responsibility with Amoco (UK) Exploration, Shell UK, Kerr-McGee and Amerada Hess. As Vice President, Production at Hess, Mr. Fairbrother was responsible for all operations in Europe, North Africa and Asia. In 2002, he co-chaired the joint government-industry group which introduced the United Kingdom's new Fallow Acreage rules.

Mr. Fairbrother joined Bow Valley in 2003 and is responsible for expanding Bow Valley's business in the U.K.

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") provides details about Bow Valley Energy Ltd's ("Bow Valley") full year and fourth quarter 2005 financial results and compares them to the corresponding periods of 2004. In addition, this MD&A outlines the Company's capital program and outlook for 2006. It should be read in conjunction with the consolidated financial statements. Certain statements throughout this report are forward-looking and are based on information currently available. Actual results will vary and the variations may be significant.

Where amounts are expressed on a barrel of oil equivalent (boe) basis, natural gas volumes have been converted to barrels of oil equivalent at six thousand cubic feet to one barrel of oil equivalent (6 mcf = 1 boe). This conversion ratio is the convention used in the oil and natural gas industry and is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. The use of boe may be misleading, particularly if used in isolation.

All figures are reported in Canadian dollars, unless otherwise stated. Throughout this MD&A we use the term funds flow from operations (cash generated from operating activities before changes in non-cash working capital) which can be found in the statement of cash flows. This term does not have a standardized meaning under generally accepted accounting principles (GAAP) and may not be comparable to other companies definition of the term. Management believes that funds flow is a useful supplementary measure that may assist investors. The effective date of this MD&A is February 27, 2006.

CRITICAL ACCOUNTING POLICIES

A summary of significant accounting policies is presented in Note 1 to the consolidated financial statements. In accounting for oil and natural gas activities, the Company has a choice between two acceptable accounting policies: full cost and successful efforts. Bow Valley follows the full cost method.

CRITICAL ACCOUNTING ESTIMATES

Preparing financial statements in accordance with GAAP requires management to make certain judgments and estimates. Changes to these judgments and estimates could have a material effect on our financial statements and financial position. The estimates of proved and probable reserves is critical to many aspects of the Company's financial statements, including net income through the calculation of depletion, the determination of the asset retirement obligation, the application of the ceiling test calculation and the test for impairment of goodwill. Management's judgment of fair value is also critical to the cost centre ceiling test, and test for impairment of goodwill. The carrying amount of property,

plant and equipment, as well as the amount recorded for depletion, depreciation and accretion (DD&A) can be affected by these judgments. Actual results will vary and the variations may be significant.

2005 OVERVIEW

In 2005, Bow Valley added significant value for shareholders as evidenced by the strong increase in earnings and cash flow year-over-year, as well as the increase in the value of its reserves. These increases were due to not only higher commodity prices, but also to increases in production and changes to the reserves report which has incorporated an accelerated schedule for the development of our U.K. undeveloped assets. Also in the U.K., late in 2005, the Company re-routed production from the Kyle field to the Ramform Banff which has greatly reduced operating costs for the field and extended the life of the field. These accomplishments resulted in an increase to the present value of the reserves by 73% (proved plus probable, PV10, before tax) year-over-year to $307.3 million. The Company continues to have significant undrawn bank lines which along with funds flow from operations are expected to be used to fund the growth of the Company.

SELECTED FINANCIAL INFORMATION

	2005		2004		2003	
	$000s	$/boe	$000s	$/boe	$000s	$/boe
Net revenue[1]	53,041	45.04	32,976	34.09	38,943	33.58
Operating expense	14,777	12.55	13,053	13.49	11,709	10.10
Operating income	38,264	32.49	19,923	20.60	27,234	23.48
Other corporate expenses	6,191	5.27	5,168	5.34	3,532	3.05
Current tax	19	0.02	14	0.01	70	0.06
Funds flow from operations	32,054	27.21	14,741	15.25	23,632	20.37
Stock based compensation	992	0.84	466	0.49	55	0.05
DD&A	20,645	17.53	17,785	18.39	20,717	17.87
Risk management – unrealized	1,070	0.91	99	0.10	–	–
Future income taxes (recovery)	2,869	2.44	(408)	(0.42)	(989)	(0.85)
Total non-cash expenses	25,576	21.72	17,942	18.56	19,783	17.07
Net income (loss)	6,478	5.49	(3,201)	(3.31)	3,849	3.31
Net income (loss)						
Per share (basic and diluted)	$ 0.10		$ (0.05)		$ 0.06	
Funds flow from operations						
Per share (basic)	$ 0.49		$ 0.23		$ 0.38	
Per share (diluted)	$ 0.47		$ 0.23		$ 0.38	
Total assets	130,346		104,258		90,463	
Debt and working capital (deficiency)	(4,759)		(16,023)		(2,829)	

(1) Net revenue includes operating revenue (net of royalties and transportation) plus interest and other revenue.

	Net revenues	Net income (loss)	Net income (loss) per share basic & diluted
	$000s	$000s	
2005			
First quarter	14,808	1,290	$ 0.02
Second quarter	12,797	1,445	$ 0.02
Third quarter	11,799	584	$ 0.01
Fourth quarter	13,638	3,159	$ 0.05
Total	53,042	6,478	$ 0.10
2004			
First quarter	8,262	(621)	$ (0.01)
Second quarter	9,243	(1,049)	$ (0.02)
Third quarter	6,575	(1,794)	$ (0.03)
Fourth quarter	8,896	263	$ 0.00
Total	32,976	(3,201)	$ (0.05)
2003			
First quarter	15,181	3,698	$ 0.06
Second quarter	9,547	2,855	$ 0.05
Third quarter	7,148	(751)	$ (0.01)
Fourth quarter	7,067	(1,953)	$ (0.03)
Total	38,943	3,849	$ 0.06

Bow Valley maintains a balance between geographic regions (Canada/United Kingdom) and between major products (oil/natural gas). The Company generates the majority of its oil and liquids revenue from the North Sea and the majority of natural gas revenue from western Canada. In 2005, the overall mix of net revenue was 57% Canada and 43% U.K. and 66% natural gas and 34% oil and liquids. This balance allows the Company to make better capital allocation decisions and allows more flexibility in near-term spending. To reflect this balance, this MD&A focuses on each region separately and then discusses corporate expenses.

CANADA

The following discussion applies to the Canadian operations only. Discussion regarding the Company's U.K. operations can be found in the U.K. section of this MD&A.

RESERVES

Bow Valley had its Canadian reserves independently evaluated as of December 31, 2005. The Company's proved plus probable reserves are considered the most likely case because there is an equal probability that the actual volumes eventually recovered will be higher or lower than the proved plus probable estimates. Company proved reserves are based on a 90% confidence level, that is, the actual volume recovered will meet or exceed the indicated Company proved reserves 9 times out of 10.

Bow Valley's Reserves Committee meets with the Company's independent engineers and has reviewed and approved the reserves reports. We present the summary information below. The Company provides additional information in its Annual Information Form (AIF) and other annual filings.

CANADIAN RESERVES TABLE (FORECAST PRICING)

Company WI reserves Total proved	Gas (mmcf)	Oil (mbbls)	NGL (mbbls)	BOE (mboe)
January 1, 2005 opening	13,156	70	244	2,507
Revisions	787	25	24	180
Economic factors	–	–	–	–
Drilling discoveries	1,416	25	25	286
Drilling extensions/infill	3,074	129	53	694
Acquisitions	186	–	–	31
Divestitures	–	–	–	–
Production	(3,845)	(26)	(75)	(742)
December 31, 2005 closing	14,774	223	271	2,956
Company WI reserves Total proved plus probable	**Gas (mmcf)**	**Oil (mbbls)**	**NGL (mbbls)**	**BOE (mboe)**
January 1, 2005 opening	19,639	110	386	3,769
Revisions	(2,094)	16	(49)	(383)
Economic factors	–	–	–	–
Drilling discoveries	1,967	34	33	395
Drilling extensions/infill	5,561	193	100	1,220
Acquisitions	216	–	–	36
Divestitures	–	–	–	–
Production	(3,845)	(26)	(75)	(742)
December 31, 2005 closing	21,444	327	395	4,295

Total proved plus probable reserves increased 14% year-over-year, to 4.3 million boe as a result of the Company's successful exploration and development drilling program in western Canada during 2005. Total additions (discoveries, extensions, infills and acquisitions) of 1.6 mmboe and net negative revisions of 0.4 mmboe were offset by production of 0.74 mmboe. Total proved reserves increased by 18% due to total additions of 1.0 mmboe and positive revisions of 0.2 mmboe offset by production of 0.74 mmboe. The most significant drilling additions during the year occurred at the Company's Balsam/Mulligan property in the Peace River Arch as well as at the Rosevear, Gilby and Cardiff properties in west-central Alberta. Proved revisions in 2005 were positive, while proved plus probable revisions were negative. Many of the Company's properties showed small positive revisions, including the Highvale and Earring properties, while Rosevear showed a negative revision in both the total proved and proved plus probable categories due to production performance.

CANADIAN REVENUE AND FUNDS FLOW TABLE

	2005		2004		% change	
	$000s	$/boe	$000s	$/boe	$000s	$/boe
Operating revenue	39,564	53.34	22,934	39.40	73	35
Interest and other	2	0.00	6	0.01	(67)	(100)
Royalties	(9,335)	(12.59)	(5,067)	(8.70)	84	45
Net revenue	30,231	40.75	17,873	30.71	69	33
Operating costs	5,494	7.41	4,195	7.21	31	3
Operating income	24,737	33.34	13,678	23.50	81	42
Cash expenses						
General and administrative costs	2,568	3.46	2,148	3.69	20	(6)
Interest expense	842	1.14	312	0.54	170	111
Foreign exchange loss	1	0.00	1	0.00	–	–
Current income taxes	19	0.03	14	0.02	36	50
Total cash expenses	3,430	4.63	2,475	4.25	39	9
Funds flow from operations	21,307	28.71	11,203	19.25	90	49
Net income (loss)	4,074	5.48	(325)	(0.56)	1354	1079

	Q4/05		Q4/04		% change	
	$000s	$/boe	$000s	$/boe	$000s	$/boe
Operating revenue	13,885	67.82	6,059	42.29	129	60
Interest and other	–	–	–	–	–	–
Royalties	(3,367)	(16.45)	(1,412)	(9.86)	138	67
Net revenue	10,518	51.37	4,647	32.43	126	58
Operating costs	1,535	7.50	1,081	7.54	42	(1)
Operating income	8,983	43.87	3,566	24.89	152	76
Cash expenses						
General and administrative costs	901	4.40	853	5.95	6	(26)
Interest expense	214	1.04	153	1.07	40	(3)
Foreign exchange loss	1	0.00	1	0.01	0	(100)
Current income taxes	–	–	10	0.07	(100)	(100)
Total cash expenses	1,115	5.44	1,017	7.10	10	(23)
Funds flow from operations	7,868	38.43	2,549	17.79	209	116
Net income	2,265	11.06	140	0.98	1518	1029

Revenues are a product of production and prices. The following discussion outlines the Company's Canadian production levels and commodity prices, with comparisons to prior periods.

Canadian Production

	2005	2004	% change	Q4/05	Q4/04	% change
Oil and NGL *(bbls/d)*	276	199	39	360	123	193
Natural gas *(mcf/d)*	10,534	8,348	26	11,191	8,607	30
Oil and natural gas equivalent *(boe/d)*	2,032	1,590	28	2,225	1,558	43

In mid-2003, the Company refocused its western Canadian exploration strategy, diversifying risk to achieve a more sustainable program. The result of this strategy change has been an increase in production from late 2003 through 2005. During 2005, western Canada experienced a very wet summer as well as a mild early winter which has negatively affected production volumes and resulted in some production capability not being tied-in by year end. Despite this, Canadian production averaged 2,032 boe/d in 2005 versus 1,590 boe/d in 2004.

The Company's Canadian production is up 28% year-over-year, due to production additions resulting from current year drilling success. Quarterly production is up 43% year-over-year, also due to 2005 drilling success.

Prices

	2005	2004	% change	Q4/05	Q4/04	% change
Natural gas						
Aeco *(Cdn$/mcf)*	8.73	6.58	33	11.37	6.70	70
Corporate average *(Cdn$/mcf)*	9.18	6.57	40	11.87	6.61	80
Oil and NGL						
WTI Cushing *(US$/bbl)*	56.47	41.40	36	60.03	48.28	24
Edmonton light *(Cdn$/bbl)*	68.86	52.78	30	72.19	58.05	24
Corporate average *(Cdn$/bbl)*	50.54	37.53	35	57.33	69.86	(18)
Total operating revenue *(Cdn$/boe)*	53.34	39.40	35	67.81	42.28	60
US$/Cdn$ exchange	0.825	0.768	7	0.852	0.819	4

Natural Gas

The Company's Canadian natural gas is sold on a daily Alberta market spot price basis. Western Canadian natural gas prices are referenced to the AECO Hub in Alberta. The Company generally receives a small premium to AECO prices due to the higher heat content of its natural gas. In 2005, corporate prices averaged $9.18 per mcf, up 40% from the previous year. There were no natural gas hedges in place during 2005. Corporate prices averaged $11.87 per mcf in the fourth quarter of 2005 ($6.61 per mcf in the fourth quarter of 2004).

Oil and Natural Gas Liquids

The benchmark price for oil in North America is West Texas Intermediate (WTI). Canadian oil prices are referenced to the posted price at Edmonton, Alberta, which represents the WTI price adjusted for currency, transportation and quality differentials. Bow Valley's oil and liquids production is largely comprised of natural gas liquids, which includes pentanes plus, butane, propane and ethane and results in a lower price compared to the Edmonton Light crude oil reference price. In 2005, the discount averaged $18.32 per barrel. Fourth quarter corporate average oil and NGL prices were 18% lower due to a third party operators adjustment recorded in the fourth quarter of 2004.

Royalties

	2005 $000s	2004 $000s	% change	Q4/05 $000s	Q4/04 $000s	% change
Crown royalties	7,915	4,155	90	2,873	1,216	136
Other royalties	1,920	1,378	39	619	287	116
	9,835	5,533	78	3,492	1,503	132
Alberta Royalty Tax Credit	(500)	(466)	7	(125)	(91)	37
Net royalties	9,335	5,067	84	3,367	1,412	138
% of operating revenue	24%	22%	9	24%	23%	4

Royalties in Canada are payable to the Crown and others on a sliding scale or fixed basis, with adjustments based on prices, well productivity and product quality. The Alberta Royalty Tax Credit (ARTC) is a credit paid by the Alberta government and is subject to a maximum. The Company reached this annual maximum in 2005 and expects to reach the annual maximum again in 2006.

The increase in crown royalties in 2005 is due to the increase in realized prices for all products as well as increased production.

Operating Costs

	2005	2004	% change	Q4/05	Q4/04	% change
Operating costs (*$000s*)	5,494	4,195	31	1,535	1,081	42
Operating costs (*$/boe*)	7.41	7.21	3	7.50	7.54	(1)

Operating costs were higher in 2005 versus 2004 due to the Company's higher production in 2005 relative to 2004. Unit operating costs were up slightly in 2005 due to cost inflation for field services.

Fourth quarter 2005 operating expenses were higher due to the higher volumes produced in the quarter while per unit operating expenses were down slightly year-over-year.

The vast majority of Bow Valley's natural gas production is gathered, processed and/or compressed through third-party facilities on a fee basis. These fees are between $0.40 and $1.00 per mcf ($2.40 – $6.00 per boe) depending upon the facilities accessed. Utilizing third-party facilities generally results in somewhat higher per unit production costs than using owned facilities, but it generally also reduces the time and capital required to bring new discoveries on stream. It also allows the Company to maximize capital available for exploration and drilling activities, and permits much greater flexibility in accommodating a broad spectrum of expected production rates and project life spans that would be difficult to achieve cost effectively through a Company-owned facility.

Depletion, Depreciation and Accretion

	2005	2004	% change	Q4/05	Q4/04	% change
Total depletion, depreciation and accretion (*$000s*)	13,430	11,470	17	3,761	2,341	61
Total depletion, depreciation and accretion (*$/boe*)	18.10	19.71	(8)	18.37	16.33	12

In 2005, DD&A expense was higher due to higher production levels, offset by a lower per unit DD&A rate. Unit DD&A expense fell due to the proved reserve additions during the year. Fourth quarter DD&A was higher year-over-year on an absolute basis because of the higher production levels and higher on a per-unit basis because of the updated reserves booked in the fourth quarter of 2004.

Goodwill

At December 31, 2005, the Company had $8.5 million in goodwill (2004 – $8.5 million) recorded on its balance sheet, arising from the Company's acquisition of Boundary Creek Resources Ltd. in 2002.

The Company recorded no additional goodwill in 2005. The Company does not amortize goodwill but tests it at least annually for impairment. The Company has made no provision for impairment of goodwill at December 31, 2005. Goodwill could become impaired in the future and in such event, a write-down would occur.

U.K.

The following discussion relates only to the Company's U.K. reserves. For discussion regarding the Company's Canadian reserves, please see the reserves discussion in the Canada section of this MD&A.

RESERVES

U.K. RESERVES TABLE (FORECAST PRICING)

Company WI reserves Total proved	Gas (mmcf)	Oil (mbbls)	NGL (mbbls)	BOE (mboe)
January 1, 2005 opening	6,037	465	85	1,556
Revisions	(805)	3,042	(85)	2,824
Drilling discoveries	–	–	–	–
Drilling extensions	–	–	–	–
Acquisitions	–	–	–	–
Divestitures	–	–	–	–
Production	(831)	(260)	–	(399)
December 31, 2005 closing	4,401	3,247	–	3,981

Company WI reserves Total proved plus probable	Gas (mmcf)	Oil (mbbls)	NGL (mbbls)	BOE (mboe)
January 1, 2005 opening	18,468	11,256	144	14,478
Revisions	(1,926)	(882)	5	(1,197)
Drilling discoveries	–	–	–	–
Drilling extensions	–	–	–	–
Acquisitions	–	–	–	–
Divestitures	–	–	–	–
Production	(831)	(260)	–	(399)
December 31, 2005 closing	15,711	10,114	149	12,882

The Company's U.K. total proved reserves increased 155% to 4.0 million boe, due to the re-classification of reserves from the probable category to the proved category as the result of Blane and Enoch receiving field development approval in 2005 offset by negative revisions at Kyle. The Company's U.K. proved plus probable reserves declined by 11% due to sales volumes of 0.4 mmboe, and net negative revisions of 1.1 mmboe, which were primarily the result of revisions to prior estimates. The proved plus probable reserve revisions were related to negative revisions at the Kyle, Blane, Chestnut and Ettrick properties, offset somewhat by positive revisions at the J1 property. Capital spending in the U.K. was $11.5 million.

Annual Report

BOW VALLEY ENERGY LTD.

U.K. REVENUE AND FUNDS FLOW TABLE

	2005		2004		% change	
	$000s	$/boe	$000s	$/boe	$000s	$/boe
Operating revenue	22,466	51.52	13,808	35.83	63	44
Interest and other	987	2.26	1,317	3.42	(25)	(34)
Royalties	(643)	(1.47)	(22)	(0.06)	n/m	n/m
Net revenue	22,810	52.31	15,103	39.19	51	33
Operating costs	9,283	21.29	8,858	22.98	5	(7)
Operating income	13,527	31.02	6,245	16.21	117	91
Cash expenses						
General and administrative costs	1,691	3.88	1,886	4.89	(10)	(21)
Interest expense	320	0.73	705	1.83	(55)	(60)
Foreign exchange loss (gain)	(159)	(0.36)	133	0.35	(220)	(203)
Risk management realized	928	2.13	(17)	(0.04)	n/m	n/m
Total cash expenses	2,780	6.38	2,707	7.03	3	(9)
Funds flow from operations	10,747	24.64	3,538	9.18	204	168
Net income (loss)	2,405	5.52	(2,876)	(7.46)	184	174

	Q4/05		Q4/04		% change	
	$000s	$/boe	$000s	$/boe	$000s	$/boe
Operating revenue	2,988	58.01	3,810	37.68	(22)	54
Interest and other	277	5.39	443	4.38	(37)	23
Royalties	(145)	(2.81)	(4)	(0.04)	n/m	n/m
Net revenue	3,120	60.59	4,249	42.02	(27)	44
Operating costs	295	5.73	1,979	19.57	(85)	(71)
Operating income	2,825	54.86	2,270	22.45	24	144
Cash expenses						
General and administrative costs	444	8.62	655	6.48	(32)	33
Interest expense	115	2.24	202	2.00	(43)	12
Foreign exchange loss (gain)	(277)	(5.39)	(9)	(0.09)	n/m	n/m
Risk management – realized	70	1.36	(17)	(0.17)	512	900
Total cash expenses	352	6.83	831	8.22	(58)	(17)
Funds flow from operations	2,473	48.03	1,439	14.23	72	238
Net income	895	17.38	123	1.22	628	1325

Revenues are a product of production and prices. The following discussion outlines the Company's U.K. production levels and commodity prices with comparisons to prior periods.

U.K. Sales Volumes

	2005	2004	% change	Q4/05	Q4/04	% change
Oil and NGL *(bbls/d)*	815	497	64	392	391	0
Natural gas *(mcf/d)*	2,278	3,337	(32)	1,007	4,245	(76)
Oil and natural gas equivalent *(boe/d)*	1,195	1,053	13	560	1,099	(49)

The Kyle field is the Company's only producing field in the U.K. North Sea. The field produces into a floating production storage and offloading vessel ("FPSO") and the Company records sales when the inventory is offloaded (lifted) to a shuttle tanker and sold. Oil sales were higher in 2005 due to a higher number of liftings than 2004 and a decrease in the amount of oil in inventory at year-end (23,000 barrels in 2005 and 63,000 barrels in 2004). The higher number of liftings was mainly due to the production from the K14 well which was put back on production late in 2004 and produced for the full year 2005. Natural gas production is sold on a continuous basis, and is recognized when produced, and was lower year-over-year due to a field shut-in to complete the tie-back as well as limited gas capacity at the Ramform Banff.

Prices

	2005	2004	% change	Q4/05	Q4/04	% change
Natural gas						
Corporate average *(Cdn$/mcf)*	4.46	4.36	2	5.74	4.78	20
Oil and NGL						
Brent *(US$/bbl)*	54.72	38.23	43	56.98	44.13	29
Corporate average *(Cdn$/bbl)*	63.55	46.20	38	68.15	67.76	1
Total operating revenue *(Cdn$/boe)*	51.52	35.61	45	58.00	42.61	36
US$/Cdn$ exchange	0.825	0.768	7	0.852	0.819	4

Oil

The benchmark price for oil in the U.K. North Sea is Brent crude. Brent generally trades at a discount to WTI, with that discount varying due to relative demand for oil between Europe and North America as well as tanker costs for transporting oil between the two continents. Prices received by Bow Valley were higher for the full year and fourth quarter compared to the prior year due to stronger Brent prices offset by a stronger Canadian Dollar. In the U.K., oil sales volumes from the Kyle field received a slight premium compared to the Brent benchmark price. In 2005, that premium averaged US$0.92 per barrel (2004 – US$1.00 per barrel). In the fourth quarter the premium averaged US$2.01 per barrel (2004 – US$0.77 per barrel).

Natural Gas

In the U.K., natural gas is contracted with the price recalculated on an annual basis each October. The price is set based on a formula indexed by an average of the price of several energy related products for the previous year in the U.K., as well as historical index prices for natural gas. The only price variable during the year results from fluctuations in the British pound sterling to Canadian dollar exchange rate.

Royalties

There is no crown royalty payable on oil or natural gas production in the U.K. The Company is required to pay a gross overriding royalty of US$0.10 per barrel on oil production from the Kyle field to a third party as well as a net profits interest based on the results of the Kyle field. In 2005, Bow Valley made royalty payments of $0.6 million (2004 – $0.02 million).

Operating Costs

	2005	2004	% change	Q4/05	Q4/04	% change
Operating costs (*$000s*)	9,283	8,858	5	295	1,979	(85)
Operating costs (*$/boe*)	21.29	22.98	(7)	5.73	19.57	(71)

For the first three quarters of the year the majority of operating costs for the Kyle field were mainly fixed and related to the cost of an FPSO. Effective the fourth quarter of the year the Kyle production was processed through the Ramform Banff on a tariff basis. Total operating costs were higher in 2005 mainly due to the operating costs associated with the inventory disposed of during the year somewhat offset by the reduced operating costs in the fourth quarter. Unit operating costs were lower in 2005 due to the reduced operating costs in the fourth quarter of 2005 from the processing of the production at the Ramform Banff. Operating costs of $0.2 million relating to oil produced, but not sold, have been included in other assets (2004 – $1.3 million).

Depletion, Depreciation and Accretion

	2005	2004	% change	Q4/05	Q4/04	% change
Total depletion, depreciation and accretion (*$000s*)	6,870	5,949	15	929	1,709	(46)
Total depletion, depreciation and accretion (*$/boe*)	15.76	15.43	2	18.04	16.91	7

U.K. total DD&A was higher than 2004 due to the higher sales volume during the year. The per unit DD&A rate was essentially unchanged from 2004. In the fourth quarter of 2005, total DD&A was lower due to the lower production. The per unit DD&A rate was higher due to the reserve revision recorded in the fourth quarter of 2005.

CORPORATE

Interest and Other Income

The Company began recovering the cost of its investment from its Balal project in Iran in 2003 and expects to recover the remainder of the costs related to this project over the next six months. During 2005, the Company recorded $0.8 million of cost recovery in other income (2004 – $1.0 million) from the Balal project and recorded amortization and general and administrative costs of $1.1 million (2004 – $0.7 million).

The Company has been served a notice of claim regarding its interest in the Balal project. It is the Company's opinion that the action is frivolous and without merit and will be defended vigorously. Potential damages are not quantifiable at this time, but in any event, are not likely to be material to the Company.

Interest Expense

Bow Valley recorded a total of $1.2 million of interest expense for 2005 (2004 – $1.0 million). Interest expense for the fourth quarter 2005 was $0.3 million, compared to $0.4 million for 2004.

General and Administrative Expenses

	2005 $000s	2004 $000s	% change	Q4/05 $000s	Q4/04 $000s	% change
Regular G&A	5,115	4,083	25	1,640	1,415	16
U.K. office[1]	1,691	1,887	(10)	444	655	(32)
Overhead recoveries	(586)	(417)	41	(161)	(129)	25
Subtotal	6,220	5,553	12	1,923	1,941	(1)
Capitalized overhead	(968)	(1,051)	(8)	(248)	(270)	(8)
G&A as reported	5,252	4,502	17	1,675	1,671	0

(1) Allocated amount

General and administrative expenses (G&A) for 2005 were $5.3 million, compared to 2004 expenses of $4.5 million. The higher costs related to an increase in the costs of compliance with new securities regulations, higher cash and non-cash compensation related to a higher staff complement to support higher activity levels. Fourth quarter 2005 G&A was unchanged at $1.7 million compared to 2004 fourth quarter G&A.

Foreign Exchange

Bow Valley's wholly-owned subsidiary Bow Valley Petroleum (UK) Limited has a bank facility that is denominated in U.S. dollars. U.K. production revenue is denominated in U.S. dollars, current accounts, including accounts payable, are typically denominated in British pounds sterling. As a result of the fluctuations in the value of the Canadian dollar versus the United States dollar and British pounds sterling between the time the debt and payables were incurred and the time they were repaid or valued on the balance sheet dates, the Company realized a gain of $0.2 million for 2005 (2004 – loss of $0.1 million) including a 2005 fourth quarter gain of $0.3 million (2004 – gain of $0.01 million).

Asset Retirement Obligation

At December 31, 2005, the present value of the Company's asset retirement obligation was $11.0 million (2004 – $9.6 million). The total undiscounted expected cost of abandonment and site reclamation is $17.8 million and is expected to be paid over the next 34 years with the majority between 2010 and 2020.

Other Assets

Current other assets includes the remaining Balal project cost recovery amount which is expected to be recovered over the next six months. Also included in other assets is $0.5 million of oil inventory that has been produced (23,000 barrels) but not sold as of December 31, 2005 from U.K operations. The inventory value of $0.5 million is comprised of $0.2 million of operating costs and $0.3 million of depletion.

Included in non-current other assets are premiums of $0.3 million for the put option contracts associated with our risk management program (2004 – nil).

Taxes

Current tax expense relates solely to Canadian capital taxes incurred by Bow Valley Energy Ltd. No cash income taxes were payable in either 2005 or 2004.

The Company recorded a future tax provision of $2.8 million related to the Canadian operations for 2005 compared to a recovery of $0.4 million in 2004. The Canadian provision in 2005 relates to the profitable operations experienced during the year. The Company recorded a provision of $0.1 million for 2005 related to the U.K. operations (2004 – nil). The provision recognizes that during the year the U.K. government increased the effective corporate tax rate applicable to the company from 40% to 50%. The Company does not expect to pay cash income taxes for the next two years in the United Kingdom and continued capital spending in Canada is expected to reduce the requirement to pay Canadian cash income taxes, although a small amount of cash income taxes is likely to be payable in 2006.

The Company has tax pools available of $47.1 million in Canada (2004 - $38.1 million) and $34.3 million in the U.K. (2004 – $39.6 million).

Capital Costs

Canada	2005 $000s	2004 $000s	% change	Q4/05 $000s	Q4/04 $000s	% change
Land and lease costs	4,044	1,812	123	849	243	249
Geological and geophysical	1,131	1,452	(22)	674	523	29
Drilling and completion	16,179	13,490	20	4,869	5,373	(9)
Tangible production equipment	5,654	4,305	31	1,773	1,221	45
Other	1,017	1,120	(9)	295	246	20
Total	28,025	22,179	26	8,460	7,606	11

U.K.	2005 $000s	2004 $000s	% change	Q4/05 $000s	Q4/04 $000s	% change
Acquisition	1,395	30	n/m	1,228	–	n/a
Development	9,963	4,126	141	5,277	1,294	308
Exploration	130	2,538	(95)	127	402	(68)
Total	11,488	6,694	72	6,632	1,696	291

In Canada, capital costs were $28.0 million for 2005, an increase of $5.8 million over 2004. The spending increase reflects the Company's expanded exploration activities in western Canada as well as cost pressures that are affecting the industry.

In the U.K., the capital costs were $11.5 million for 2005, an increase of $4.8 million over 2004 reflecting initial spending on the development of our U.K. fields towards first oil.

Land

(acres)	Undeveloped Gross	Undeveloped Net	Developed Gross	Developed Net
Total international	242,098	79,138	13,912	1,988
Total domestic	90,231	59,552	66,917	28,426
Total	332,329	138,690	80,829	30,414

Drilling Activity

	U.K.		Canada	
	Gross	Net	Gross	Net
Oil	–	–	3	2.5
Natural gas	–	–	11	7.1
Abandoned	–	–	4	3.6
Suspended	–	–	3	2.6
Total	–	–	21	15.8

Liquidity and Capital Resources

At year-end 2005, the Company had a working capital deficiency of $4.8 million which includes bank drawings of $8.8 million. The Company is able to finance this deficiency through bank lines and funds flow from operations. The Company has bank facilities in the U.K. with an approved limit of US$60.0 million. At year-end 2005, US$3.0 million was drawn on this facility. In Canada, the Company has a $25.0 million facility. At year-end 2005, the Company had approximately $5.4 million drawn on this facility.

Commodity Risk Management

In conjunction with the Company's bank facilities, the Company has entered into several risk management contracts to ensure adequate cash flows to repay the loans. The Company's risk management policy is outlined in Note 1(h) to the Financial Statements. In 2005, the Company incurred an unrealized loss of $1.1 million and a realized loss of $0.9 million due to risk management contracts. In 2004, unrealized hedging losses were $0.1 million and a realized gain of $0.02 million. In the fourth quarter, the Company incurred an unrealized loss of $0.5 million and a realized loss of $0.1 million. There was an unrealized gain of $0.5 million and a realized gain of $0.02 million in the fourth quarter of 2004.

Contractual Requirements/Commitments

The Company had the following outstanding at December 31, 2005:

Type	Time Frame	Volume	Price (US$)	Basis
Swap	1/1/2006 – 6/30/2006	125 bbls/d	$56.10	Brent
Swap	7/1/2006 – 12/31/2006	95 bbls/d	$55.85	Brent
Call	1/1/2007 – 6/30/2007	500 bbls/d	$67.50	Brent

The Company is participating in three field developments in the U.K. Bow Valley will incur an estimated $73 million in capital costs over the next three to five years in respect of these developments. The timing and amounts of payments are subject to change based on the ability of the operator to complete the field developments as planned.

In Canada, the Company enters into non-material commitments for compressors and pipeline access in the normal course of business. These commitments are generally short-term in nature. The Company's office lease commitments and transportation commitments are outlined in Note 13.

Controls Environment

The Company has established disclosure controls, procedures and corporate policies so that the consolidated financial results are presented accurately, fairly and timely. The disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under applicable securities regulation is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. All internal control systems, no matter how well designed, have inherent limitations. Therefore, these systems provide reasonable, but not absolute assurance, that financial information is accurate and complete.

OUTLOOK/BUSINESS RISKS

Bow Valley is forecasting capital spending in Canada of $40 million in 2006, which is expected to fund the drilling of 30 - 35 wells. A continuation in the tight market for services could lead to cost increases or delays in certain projects, which would result in either an increase to the forecast spending levels and/or a reduction in levels of activity. The Company expects to build on the reserve and production growth of the last two years and will continue its emphasis on full-cycle/half-cycle exploration and development activities.

In the U.K., the Company is forecasting capital spending of $65 million, which is expected to cover expenditures on the development of the Blane, Enoch and Chestnut fields, as well as approximately $8 million on exploration activities. Should the Ettrick field development receive government approval (which is expected by the end of the first quarter of 2006), spending in the current year could increase to approximately $80 million in the U.K.

The combined Canadian and U.K. planned spending of $105 million will be funded out of funds flow from operations and currently available bank lines with the National Bank and the Bank of Scotland. Increased spending for Ettrick field development is expected to be funded out of an expanded bank facility in the U.K., currently under negotiation. The Company continues to evaluate potential acquisition opportunities in both Canada and the U.K. An acquisition would be financed through a combination of new debt and equity, depending upon the cost.

The Company expects commodity prices to continue above long-term averages with high levels of volatility, reflecting tight supply and demand fundamentals. World political events, which are impossible to predict, will continue to influence both oil and natural gas prices. High commodity prices have created strong global demand for oil and natural gas services, resulting in significant cost pressures for these services. Higher costs can have a negative effect on the investment returns received on the Company's projects, while reduced availability of services can lead to project delays.

The Company's financial and operating results are also influenced by currency exchange rates between the Canadian dollar, U.S. dollar and British pound sterling. The Company has mitigated some of this risk by diversifying its borrowings to include U.S. and Canadian dollar debt.

Management's Report

The accompanying consolidated financial statements of Bow Valley Energy Ltd. and all other financial and operating information contained in this Annual Report are the responsibility of management. The consolidated financial statements have been prepared in accordance with accounting policies detailed in the notes to the consolidated financial statements and in accordance with generally accepted accounting principles in Canada.

The Company's systems of internal control have been designed and maintained to provide reasonable assurance that assets are properly safeguarded and that the financial records are sufficiently well maintained to provide relevant, timely and reliable information to management.

External auditors, appointed by the shareholders, have independently examined the consolidated financial statements. They have performed such tests as they deemed necessary to enable them to express an opinion on these consolidated financial statements.

An Audit Committee of the Board of Directors has reviewed these consolidated financial statements with management and the external auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

ROBERT G. MOFFAT
President and Chief Executive Officer
February 27, 2006

MATTHEW L JANISCH
Vice President, Finance and Chief Financial Officer

Auditors' Report

To The Shareholders of Bow Valley Energy Ltd.

We have audited the consolidated balance sheets of Bow Valley Energy Ltd. as at December 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants
Calgary, Alberta
February 27, 2006

Consolidated Balance Sheets

As at December 31	2005	2004
Assets		
Current assets		
Cash and cash equivalents	$ 3,568	$ 4,009
Accounts receivable	13,720	7,544
Other *(note 4)*	800	2,914
	18,088	14,467
Property, plant and equipment *(note 2)*	103,483	81,279
Goodwill *(note 3)*	8,512	8,512
Other assets *(note 4)*	263	–
	$ 130,346	$ 104,258
Liabilities		
Current liabilities		
Accounts payable	$ 13,760	$ 20,363
Risk management *(note 12)*	240	99
Bank indebtness *(note 5)*	8,847	10,028
	22,847	30,490
Asset retirement obligation *(note 6)*	11,023	9,563
Future income taxes *(note 7)*	4,891	2,432
Shareholders' Equity		
Share capital *(note 9)*	102,724	80,367
Contributed surplus *(note 8)*	1,498	521
Deficit	(12,637)	(19,115)
	91,585	61,773
	$ 130,346	$ 104,258

Approved by the Board,

Daryl K. Seaman
Director

Jack W. Peltier
Director

Consolidated Statement of Operations and Deficit

For the years ended December 31	2005	2004
Revenue		
Operating	$ 62,940	$ 37,419
Transportation expenses	(910)	(677)
Interest and other	989	1,323
Royalties (net of royalty tax credit)	(9,978)	(5,089)
	53,041	32,976
Expenses		
Operating	14,777	13,053
General and administrative	5,252	4,501
Interest	1,162	1,017
Foreign exchange loss (gain)	(159)	133
Risk management – unrealized	1,070	99
Risk management – realized	928	(17)
Depletion, depreciation and amortization	19,993	17,165
Accretion	652	620
	43,675	36,571
Net income (loss) before tax	9,366	(3,595)
Taxes		
Current *(note 7)*	19	14
Future income tax expense (recovery) *(note 7)*	2,869	(408)
	2,888	(394)
Net income (loss) for the period	6,478	(3,201)
Deficit		
Beginning of the year	(19,115)	(15,914)
End of the year	$ (12,637)	$ (19,115)
Earnings (loss) per share *(note 10)*		
Basic and diluted	$ 0.10	$ (0.05)

Consolidated Statement of Cash Flows

For the years ended December 31	2005	2004
Operating Activities		
Net income (loss) for the year	$ 6,478	$ (3,201)
Non-cash items		
Risk management – unrealized	1,070	99
Depletion, depreciation and amortization	19,993	17,165
Accretion	652	620
Stock based compensation	992	466
Future income tax expense (recovery)	2,869	(408)
Funds flow from operations	32,054	14,741
Abandonment costs	(937)	(211)
Change in other long-term assets	(1,191)	–
Net change in non-cash working capital	(11,771)	1,025
	18,155	15,555
Investing activities		
Acquisition of property, plant and equipment	(39,513)	(28,873)
Net change in non-cash working capital	166	3,711
	(39,347)	(25,162)
Financing Activities		
Issue of class A common shares for		
Private placement	21,805	–
Exercise of options	1,217	90
Share issue costs	(1,090)	(7)
Bank indebtedness	(1,181)	8,141
Debenture	–	818
	20,751	9,042
(Decrease) in cash	(441)	(565)
Cash and cash equivalents, beginning of period	4,009	4,574
Cash and cash equivalents, end of period	$ 3,568	$ 4,009
Cash flow supplemental information – cash paid		
Capital taxes paid	–	61
Interest paid	1,108	678

Notes to Consolidated Financial Statements

For the years ended December 31, 2005 and 2004

1. Significant Accounting Policies

The consolidated financial statements of Bow Valley Energy Ltd. (the "Company") have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

MANAGEMENT ESTIMATES AND MEASUREMENT UNCERTAINTY

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions regarding certain assets, liabilities, revenues and expenses. Such estimates include those related to unsettled transactions and events as of the date of the financial statements. Others include estimates related to depletion, depreciation, amortization, accretion, asset retirement obligations, future taxes, goodwill and the ceiling test. Actual results may differ from estimated amounts.

Significant accounting policies are summarized as follows:

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company, all of its wholly-owned subsidiaries, and a 50 percent owned company that has no material operations (Croft (UK) Limited) which is consolidated using the proportionate consolidation method of accounting.

(b) Property, Plant and Equipment

The Company follows the full cost method of accounting, whereby all costs associated with the exploration for and development of oil and gas reserves are capitalized and accumulated in country-by-country cost centres. Such costs include land acquisition, geological and geophysical, carrying of non-producing properties, drilling productive and non-productive wells, and plant and equipment.

Gains or losses on sales of properties are recognized only when crediting the proceeds to capitalized costs would result in a change of 20 percent or more in the depletion rate.

Depletion and depreciation of properties and equipment is provided using the unit-of-production method based on the Company's share of proved oil and natural gas reserves before royalties, as determined by independent engineers for each country. Production and reserves of natural gas are converted to barrels of oil equivalent (boe) using an energy equivalent basis of six thousand cubic feet of natural gas to one barrel of oil equivalent (6 mcf = 1 boe). This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In determining its depletion base, the Company includes estimated future costs to be incurred in developing proved reserves as estimated by independent engineers and excludes the cost of unproved properties. The unproved properties are assessed periodically to consider whether impairment has occurred. If an unproved property is considered to be impaired, the amount associated with the impairment is added to costs subject to depletion. Certain costs relating to North Sea properties from which there has not been commercial production are not subject to depletion until commercial production commences.

Depreciation of other capital assets such as leasehold improvements, office furniture, computer and other equipment is provided based on rates ranging from 20 to 100 percent on a declining balance basis.

The Company applies a ceiling test as a test of impairment of its capitalized costs relating to its petroleum and natural gas properties. The cost centres are tested for recoverability by comparison to undiscounted estimated future net revenues (cash flows) from proved reserves using forecast prices, plus the unimpaired cost of unproved properties. When the carrying amount of a cost center is not recoverable, the cost center is written down to its estimated fair value.

(c) Goodwill

Goodwill, which represents the excess of purchase price over estimated fair value of net assets received is not amortized but is assessed at least annually for impairment. To assess impairment, the fair value of the reporting unit is determined and compared to the book value of the reporting unit. If the fair value is less than the book value, the amount of the impairment is determined by deducting the fair value of the reporting unit's identifiable assets and liabilities from the fair value of the reporting unit to determine the implied fair value of goodwill and comparing that amount to the book value of the reporting unit's goodwill. Any excess of the book value of goodwill over the implied fair value of goodwill is the impaired amount.

(d) Asset Retirement Obligation

The Company recognizes the estimated fair value of an asset retirement obligation ("ARO") in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a liability with a corresponding increase in the carrying amount of the related asset. ARO obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes to the underlying cash flows. The capitalized amount is depleted on a unit-of-production basis over the life of the proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost result in an increase or decrease to the ARO. Actual costs incurred are charged against the ARO to the extent of the recorded liability.

(e) Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, income tax liabilities and assets are recognized for the estimated tax effects of the differences between the amounts reported in the financial statements and the respective tax basis, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period the change occurs.

Estimated future tax benefits related to losses and unclaimed costs for tax purposes are recognized as assets and in income, once it appears more likely than not they will ultimately be realized.

(f) Flow-through Shares

The deductions for income tax purposes related to exploration and development activities funded by Canadian flow-through share arrangements are renounced to investors in accordance with income tax legislation. The future tax liability and a decrease to share capital is recorded when the applicable tax documents are filed with the authorities.

(g) Stock Option Plan

Bow Valley has a stock-based compensation plan that allows employees, consultants, and directors to purchase common shares of the Company. Option exercise prices approximate the market price for the common shares on the date the options are issued. Options granted under the plan vest over three years and expire five years after the grant date.

Stock-based compensation expense is deferred and recognized in earnings over the estimated period with a corresponding amount being shown as contributed surplus.

The fair value of options granted is estimated using the Black-Scholes option-pricing model. Factors used in this model include expected volatility, expected dividends, and risk-free interest rates. Consideration paid upon the

exercise of the stock options is recorded as an increase to share capital together with corresponding amounts previously recognized in contributed surplus. Forfeitures are accounted for as they occur which result in reductions of compensation expense.

(h) Risk Management
From time to time, the Company enters into risk management contracts for crude oil and natural gas prices on a portion of its production designed to reduce the adverse effect of lower prices and not for speculative purposes. The contracts are entered into with commodities trading institutions and may include costless collars, put options or fixed price contracts. The Company has elected not to designate any of its risk management activities as accounting hedges under Accounting Guideline 13 and accordingly, accounts for all derivatives using the mark-to-market method.

(i) Cash and Cash Equivalents
Cash and cash equivalents include interest-bearing short-term investments with maturity of three months or less when purchased.

(j) Joint Ventures
Substantially all of the Company's exploration and development activities relating to oil and gas activities are conducted jointly with others. The accounts reflect the Company's proportionate interest in such activities.

(k) Foreign Currency Translation
The Company uses the temporal method for translating its foreign currency accounts and integrated foreign subsidiaries to Canadian dollars. Under this method, all monetary asset and liability accounts are translated to Canadian dollars at the exchange rate in effect at the balance sheet date and non-monetary assets and liabilities are translated at the exchange rate in effect when the assets were acquired or obligations incurred.

Revenues and expenses are translated to Canadian dollars at the monthly average exchange rate. Provisions for depletion, depreciation, and asset retirement obligation are translated at the same rate as the related balance sheet items. Foreign exchange gains and losses are included in earnings.

(l) Comparative Amounts
Certain comparative figures have been reclassified to conform with the current year presentation.

2. Property, Plant and Equipment

December 31, 2005

($000s)	Cost	Accumulated depletion and depreciation	Net book value
Oil and gas properties			
U.K.	$ 101,325	$ 59,188	$ 42,137
Canada	105,738	44,476	61,262
	207,063	103,664	103,399
Other	931	847	84
	$ 207,994	$ 104,511	$ 103,483

December 31, 2004

($000s)	Cost	Accumulated depletion and depreciation	Net book value
Oil and gas properties			
U.K.	$ 88,876	$ 53,335	$ 35,541
Canada	77,009	31,343	45,666
	165,885	84,678	81,207
Other	770	698	72
	$ 166,655	$ 85,376	$ 81,279

At December 31, 2005, the net book value of U.K. oil and gas properties was $42.1 million (2004 – $35.5 million) of which $26.2 million (2004 – $18.2 million) consisted of unproved properties which were not depleted.

At December 31, 2005, the net book value of Canadian oil and gas properties was $61.3 million (2004 – $45.7 million) of which $9.1 million (2004 – $6.4 million) consisted of unproved properties which were not depleted.

During 2005, the Company capitalized $1.0 million (2004 – $1.1 million) of overhead relating to exploration activities. The Company did not capitalize any interest in 2005 or 2004. Depletion and depreciation amounted to $19.6 million for 2005 and $16.8 million in 2004.

Bow Valley performed a ceiling test calculation at December 31, 2005 to assess the recoverable amount of the property, plant and equipment of the U.K. cost centre. The price forecast at December 31, 2005 used in this evaluation was the independent reserve evaluator's as outlined in the table below and adjusted for quality and transportation differentials specific to Bow Valley.

Year	Exchange rate C$/US$	Brent US$/bbl	Natural gas price C$/mmbtu
2006	0.85	55.50	8.16
2007	0.85	53.50	7.87
2008	0.85	49.50	7.28
2009	0.85	46.50	6.84
2010	0.85	45.00	6.62
2010-2012	0.85	variable	variable
thereafter		+2.0%/year	+2.0%/year

Bow Valley performed a ceiling test calculation at December 31, 2005 to assess the recoverable amount of the property, plant and equipment of the Canadian cost centre. The price forecast at December 31, 2005 used in this evaluation was the independent reserve evaluator's as outlined in the table below and adjusted for quality and transportation differentials specific to Bow Valley.

Year	Exchange rate C$/US$	WTI US$/bbl	Edmonton light C$/bbl	AECO-C price C$/mmbtu
2006	0.85	57.00	66.25	10.60
2007	0.85	55.00	64.00	9.25
2008	0.85	51.00	59.25	8.00
2009	0.85	48.00	55.75	7.50
2010	0.85	46.50	54.00	7.20
2010-2012	0.85	variable	variable	variable
thereafter		+2.0%/year	+2.0%/year	+2.0%/year

Future events, such as deteriorating operating performance or a reduction in commodity prices could result in material changes to the carrying amounts recognized in the Consolidated Financial Statements.

3. Goodwill

The Company is required annually to test Goodwill for impairment. At December 31, 2005, no impairment was indicated as the estimated fair value of the Canadian reporting unit exceeded the carrying value of the unit including goodwill.

4. Other Assets

The Company's service contract with the National Iranian Oil Company to develop the Balal oilfield was ratified by the Supreme Economic Council of Iran at the end of January 1999. The Company was successful in securing Elf Petroleum Iran as a joint venture partner and the service contract was executed on April 4, 1999. The Company's total remaining cost to be recovered of $0.3 million (2004 – $0.6 million) has been included in current other assets.

The Company began receiving cost recovery amounts from its interest in the Balal Project during 2003 and in 2005 recorded other income of $0.8 million (2004 – $1.0 million). Costs attributable to the project are being amortized over the expected revenues to be received during the next six months.

Oil produced but not sold at December 31, 2005 relating to the U.K. operations of $0.5 million has been included in current other assets at cost.

Included in non-current other assets are premiums of $0.3 million associated with the put option contracts associated with our risk management program (2004 – nil).

5. Bank Indebtedness

In the United Kingdom, the Company has bank facilities with approved limits totaling US$60.0 million at December 31, 2005 at an interest rate of up to LIBOR plus 8.0 percent. The approved limit is subject to semi-annual review and the facility expires on December 31, 2010. At December 31, 2005, US $3.0 million (2004 – US $2.3 million) was drawn on this facility. The bank facility is secured by a floating charge on all property, assets and rights of Bow Valley Petroleum (UK) Limited, and a guarantee from Bow Valley Energy Ltd.

In Canada, the Company has a $25.0 million revolving credit facility. At December 31, 2005, $5.4 million (2004 – $7.3 million) was drawn on this facility. The facility is repayable on demand, bears interest at the bank's prime rate plus 0.50 percent per annum, and is secured by a $50.0 million demand debenture conveying a fixed and floating charge over all properties in Canada. The facility is subject to semi-annual review each year.

6. Asset Retirement Obligations

($000s)	2005	2004
Balance – beginning of the year	$ 9,563	$ 8,095
Increase in obligations during the year	113	62
Settlement of obligations during the year	(937)	(211)
Revisions to estimates	1,632	997
Accretion expense	652	620
Balance – end of the year	$ 11,023	$ 9,563

The total future asset retirement obligation was estimated by management based on the Company's net ownership interest in wells and facilities, estimated costs to abandon the wells and facilities, reclamation of the land, and the estimated timing of the costs to be incurred in future periods. In Canada, the costs were estimated using the Energy Utilities Board guidelines for certain well and facility types and geographic areas. In the U.K., the obligation was estimated by the Company's independent engineers. At December 31, 2005, the estimated net present value of the asset retirement obligation was $11.0 million ($7.4 million for the Company's U.K. operations

and $3.6 million for the Canadian operations). The Company expects the undiscounted obligations of $17.8 million to become payable over the next 34 years with the majority between 2010 and 2020. A discount rate of between 5.75 and 8.40 percent and an inflation rate of 1.5 percent were used to calculate the present value of the asset retirement obligation.

7. Future Income Taxes

The provisions for income taxes in the consolidated statement of operations and deficit varies from the amount that would be computed by applying the expected tax rate to earnings before income taxes. The principal reasons for differences between such "expected" income tax expense and the amount actually recorded are as follows:

		2005	
($000s)	Canada	U.K.	Total
Tax rate	37.62%	50.00%	
Expected income tax (recovery) expense	$ 2,597	$ 1,336	$ 3,933
Increase (decrease) in income taxes resulting from:			
Federal resource allowance	(1,572)	–	(1,572)
Non-deductible Crown charges	1,969	–	1,969
Alberta Royalty Tax Credit	(155)	–	(155)
Change in rates	(274)	971	697
Foreign exchange adjustment	–	2,032	2,032
Change in valuation allowance	–	(3,884)	(3,884)
Attributed Canadian royalty income	(111)	–	(111)
Non-deductible – other	427	–	427
Other	(70)	(397)	(467)
Actual income tax expense (recovery)	$ 2,811	$ 58	$ 2,869

		2004	
($000s)	Canada	U.K.	Total
Tax rate	38.87%	40.00%	
Expected income tax (recovery) expense	$ (280)	$ (1,150)	$ (1,430)
Increase (decrease) in income taxes resulting from:			
Federal resource allowance	(827)	–	(827)
Non-deductible Crown charges	1,277	–	1,277
Alberta Royalty Tax Credit	(158)	–	(158)
Change in rates	(680)	–	(680)
Foreign exchange adjustment	–	3	3
Change in valuation allowance	–	1,838	1,838
Attributed Canadian royalty income	(184)	–	(184)
Non-deductible – other	201	–	201
Other	257	(691)	(434)
Actual income tax expense (recovery)	$ (394)	$ –	$ (394)

Future Tax

($000s) Canada	December 31, 2005	2004
Net book value of property, plant and equipment in excess of tax basis	$ (8,978)	$ (6,321)
Asset retirement obligation	1,217	994
Non-capital loss carryforwards	1,910	2,238
Share issue costs	409	227
Attributed Canadian royalty income	609	430
Future tax liability	$ (4,833)	$ (2,432)

($000s) U.K.	December 31, 2005	2004
Net book value of property, plant and equipment in excess of tax basis	$ (17,318)	$ (8,592)
Asset retirement obligation	3,700	2,642
Loss carryforwards	13,560	9,833
Future tax asset	$ (58)	$ 3,884
Valuation allowance	–	(3,884)
Future tax liability	$ (58)	$ –

The approximate amounts of tax pools available are as follows:

($000s)	2005	2004
Canada	$ 47,086	$ 38,134
U.K.	34,329	39,592
Total	$ 81,415	$ 77,726

Tax Losses – Canada

At December 31, 2005, the Company had losses included in the above table available to offset future income for tax purposes of $5.4 million. The losses expire in the years as noted:

($000s)	Amount
2006	1,295
2007	1,315
2008	1,440
2009	1,315
Total	$ 5,365

Tax Losses – U.K.

At December 31, 2005, the Company had losses available included in the totals above to offset future income for tax purposes of $27.1 million. The losses have an indefinite life.

8. Stock Based Compensation

For 2005, $1.0 million (2004 – $0.5 million) was included in general and administrative expense for stock-based compensation and an equivalent amount is being credited to contributed surplus. This amount was determined using the Black-Scholes option-pricing model, using an average risk-free interest rate of 3.60 percent, expected life of 4 years, expected average volatility factor of 47.38 percent, and no dividends for an average fair value per option of $1.37.

9. Share Capital

a) Authorized

Unlimited number of Class A, Class B and Class C Common Shares without nominal or par value.
Unlimited number of Class D, Class E and Class F Preferred Shares.

b) Issued

Class A common shares	Number	Amount ($000s)
As at December 31, 2003	64,510,013	$ 82,225
Options exercised	131,534	90
Tax effect of flow-through shares and issue costs	–	(1,941)
Issue costs	–	(7)
As at December 31, 2004	64,641,547	$ 80,367
Options exercised	883,634	1,217
Private placement	3,700,000	21,805
Issue costs	–	(1,090)
Tax effect of flow-through shares and issue costs	–	410
Transfer from Contributed Surplus	–	15
As at December 31, 2005	**69,225,181**	**$ 102,724**

c) Stock options

	Number of options	Exercise prices	Weighted average exercise price
Outstanding at December 31, 2003	3,433,101	$0.38-$2.41	$1.45
Exercised	(131,534)	$0.38-$1.18	$0.68
Granted in 2004	1,596,599	$1.31-$1.81	$1.60
Cancelled	(593,133)	$1.18-$1.50	$1.44
Outstanding at December 31, 2004	4,305,033	$0.50-$2.41	$1.53
Exercised	(883,634)	$0.50-$1.50	$1.38
Granted in 2005	1,617,367	$1.89-$4.61	$3.35
Cancelled	(5,000)	$1.70	$1.70
Outstanding at December 31, 2005	**5,033,766**	**$0.95-$4.61**	**$2.15**

The following tables summarize information about stock options exercisable and outstanding at December 31, 2005:

Options outstanding

Range of exercise price	Actual number outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)
$0.00-$1.00	8,000	$ 0.95	0.25
$1.01-$2.00	3,503,399	$ 1.59	3.10
$2.01-$3.00	145,000	$ 2.27	2.82
$3.01-$4.00	1,357,367	$ 3.56	4.53
$4.01-$5.00	20,000	$ 4.61	4.90
	5,033,766	$ 2.15	3.37

Exercisable options

Range of exercise price	Actual number outstanding	Weighted average exercise price
$0.00-$1.00	8,000	$ 0.95
$1.01-$2.00	2,061,644	$ 1.54
$2.01-$3.00	30,000	$ 2.41
	2,099,644	$ 1.55

10. Per Share Information

a) Basic per share information was calculated on the basis of the weighted average common shares outstanding during the year of 65,692,697 (2004 – 64,577,899).

b) Diluted per share information was calculated using 67,589,100 (2004 – 64,920,434). The amounts represent the sum of the weighted average shares outstanding plus an increase of 1,896,403 (2004 – 342,535) to account for the dilutive effects of the Company's outstanding stock options.

11. Geographic Segment Information

	December 31, 2005		
($000s)	Canada	United Kingdom	Consolidated
Operating revenue	$ 40,474	$ 22,466	$ 62,940
Transportation expenses	(910)	–	(910)
Interest and other income	2	987	989
Royalties, net of royalty tax credit	(9,335)	(643)	(9,978)
Operating expenses	(5,494)	(9,283)	(14,777)
General and administrative expense	(3,561)	(1,691)	(5,252)
Interest expense	(842)	(320)	(1,162)
Foreign exchange (loss) gain	0	159	159
Risk management – unrealized	–	(1,070)	(1,070)
Risk management – realized	–	(928)	(928)
Amortization of other assets	–	(344)	(344)
Depletion, depreciation and accretion expense	(13,430)	(6,870)	(20,301)
Taxes – current	(19)	–	(19)
– future tax expense	(2,811)	(58)	(2,869)
Net income (loss) for the year	$ 4,074	$ 2,405	$ 6,478
Goodwill	$ 8,512	$ –	$ 8,512
Identifiable assets	$ 79,934	$ 50,412	$ 130,346
Total capital additions	$ 28,025	$ 11,488	$ 39,513

($000s)	Canada	United Kingdom	Consolidated
	December 31, 2004		
Operating revenue	$ 23,611	$ 13,808	$ 37,419
Transportation expenses	(678)	–	(678)
Interest and other income	6	1,317	1,323
Royalties, net of royalty tax credit	(5,067)	(22)	(5,089)
Operating expenses	(4,195)	(8,858)	(13,053)
General and administrative expense	(2,615)	(1,887)	(4,502)
Interest expense	(312)	(705)	(1,017)
Foreign exchange (loss) gain	–	(133)	(133)
Risk management – unrealized	–	(99)	(99)
Risk management – realized	–	17	17
Amortization of other assets	–	(366)	(366)
Depletion, depreciation and accretion expense	(11,470)	(5,948)	(17,418)
Taxes – current	(14)	–	(14)
– future tax recovery	408	–	408
Net income (loss) for the year	$ (325)	$ (2,876)	$ (3,201)
Goodwill	$ 8,512	$ –	$ 8,512
Identifiable assets	$ 59,476	$ 44,782	$ 104,258
Total capital additions	$ 22,179	$ 6,694	$ 28,873

12. Risk Management and Financial Instruments

During the year, the Company incurred an unrealized loss of $1.1 million and a realized loss of $0.9 million from oil swaps and put options. In 2004, unrealized risk management losses were $0.1 million and a realized gain of $0.02 million. In the fourth quarter, the Company incurred an unrealized loss of $0.5 million and a realized loss of $0.1 million. There was an unrealized gain of $0.5 million and a realized gain of $0.02 million in the fourth quarter of 2004.

At December 31, 2005, the following risk management contracts were outstanding:

	Time frame	Basis	Volume (bbls)	Price
Swaps				
Oil	First half 2006	Brent	22,625	US$56.10
Oil	Second half 2006	Brent	17,480	US$55.85
Costless collars				
Oil	First half 2007	Brent	181,000 (floor)	US$40.00
			90,500 (ceiling)	US$67.50
Puts				
Oil	First half 2007	Brent	181,000	US$40.00
Oil	Third quarter 2007	Brent	184,000	US$40.00
Oil	Fourth quarter 2007	Brent	228,160	US$40.00

The Company's financial instruments are comprised of cash, accounts receivable, bank indebtedness, accounts payable, crude oil swaps, and crude oil put options. There are no significant differences between the carrying values of these items and the estimated market values due to their short-term nature.

The Company is exposed to credit risk on its accounts receivable from its customers. The Company believes there is no significant concentration of credit risk.

The Company is exposed to interest rate risk to the extent of the floating rate related to bank indebtedness.

13. Commitments

At December 31, 2005, the Company was committed to long-term leases for offices and transportation of:

Year	Amount ($000s)
2006	$ 445
2007	$ 324
2008	$ 73
2009	–
2010	–
Total	$ 842

The Company had the following outstanding at December 31, 2005:

Type	Time frame	Basis	Volume (bbls)	Price
Swap	First half 2006	Brent	22,625	US$56.10
Swap	Second half 2006	Brent	17,480	US$55.85
Call	First half 2007	Brent	90,500	US$67.50

The Company is participating in three field developments in the U.K. Bow Valley will incur an estimated $73 million in capital costs over the next three to five years in respect of these developments. The timing and amounts of payments are subject to change based on the ability of the operator to complete the field developments as planned.

14. Contingency

The Company has been served a notice of claim regarding its interest in the Balal project. It is the Company's opinion that the action is frivolous and without merit and will be defended vigorously. Potential damages are not quantifiable at this time, but in any event, are not likely to be material to the Company.

Corporate Governance

The Board and management of the Corporation recognize that effective corporate governance is important to the direction and operation of the Corporation in a manner which ultimately enhances shareholder value. As a result, the Corporation has developed and implemented, and continues to develop, implement and refine formal policies and procedures which reflect its ongoing commitment to good corporate governance and which establish a culture of integrity, honesty and respect. The Corporation believes that the corporate governance practices and procedures described below are appropriate for a company such as Bow Valley.

COMPOSITION OF THE BOARD

Consistent with the Corporation's streamlined approach to the management of the Corporation, the Board of Directors of the Corporation consisted of six individuals in 2005, including a non-executive Chairman of the Board and the President and Chief Executive Officer of the Corporation. Five of the six directors, including the Chairman of the Board, were considered independent within the meaning of applicable securities legislation.

The Board has responsibility for hiring senior management and supervising and overseeing the management of the business of the Corporation. In addition to the obligations of the Board mandated by law, the Board has responsibility for strategic planning, the selection and monitoring of management and the identification of the principal risks associated with the Corporation's business. These duties and responsibilities, among others, are set forth in a written mandate of the Board that has been adopted. The Board of Directors mandate is attached as Schedule B of the Information Circular. The Board approves all significant decisions that materially affect the Corporation before they are implemented and annually approves the key business and financial objectives of the Corporation.

Certain of the powers, duties and responsibilities of the Board have been delegated to committees of the Board, as described below.

COMMITTEES

During the year ended December 31, 2005, the Board of Directors had four committees – the Audit Committee, the Reserves Committee, the Compensation and Corporate Governance Committee, and the Hedging Committee. In addition, the Corporation has established two new committees effective December 31, 2005 – the Nominating Committee and the Disclosure Committee. Membership in each committee is set forth below. For information on the attendance at meetings of each of the committee members, see "Annual Meeting Business – Election of Directors – Meetings Held and Attendance of Directors" in the Information Circular.

Audit Committee

The Audit Committee is comprised of Messrs. Jack W. Peltier (current Chairman and member of the Audit Committee since his election to the Board of Directors on May 18, 2005), George Y. Tooley (served as Chairman until May 18, 2005) and Henry R. Lawrie. Prior to his death on February 24th, 2006, Mr. Kenneth R. Stiles also served on the Audit Committee. All members are directors who are considered independent within the meaning of applicable securities legislation. The Audit Committee reviews the annual and quarterly financial statements of the Corporation and meets with the external auditors to discuss and consider audit procedures and to assess the adequacy of the Corporation's internal controls and management information systems. The Audit Committee meets at least once every quarter. The members of the Audit Committee have direct access to the external

auditors of the Corporation and meet with the external auditors independently of management. Additional information relating to the composition of the Audit Committee, the Audit Committee Charter, the fees billed by the external auditors in each of the last two fiscal years, and the relevant education and experience of its members is set out under the heading "Audit Committee" in the Corporation's Annual Information Form dated February 27, 2006 for the year ended December 31, 2005. The Corporation's Annual Information Form is available on SEDAR at www.sedar.com.

Reserves Committee

The Reserves Committee is comprised of Messrs. Henry R. Lawrie, Jack W. Peltier and prior to his death on February 24th, 2006, Mr. Kenneth R. Stiles, who served as Chairman of the Reserves Committee. Mr. George Y. Tooley served as a member of the Reserves Committee until May 18, 2005. All members are directors who are considered independent within the meaning of applicable securities legislation. The Reserves Committee reviews the independent engineering reserves report and meets with the independent engineers to review the methodology used in estimating the reserves. The Reserves Committee reviews the adequacy of the information available to the independent engineers and the co-operation of management in making such information available. The members of the Reserves Committee have direct access to the independent engineers.

Compensation and Corporate Governance Committee

The Compensation and Corporate Governance Committee is comprised of Messrs. Henry R. Lawrie (Chairman), Daryl K. Seaman and George Y. Tooley, directors who are considered independent within the meaning of applicable securities legislation. The Compensation and Corporate Governance Committee is responsible for making recommendations to the Board of Directors relating to compensation and personnel policies and to assist the Board of Directors with its corporate governance principles and guidelines. The Committee also reviews and approves the overall compensation policies of the Corporation.

Hedging Committee

The Hedging Committee is comprised of Messrs. Robert G. Moffat (Chairman) and George Y. Tooley. Prior to his death on February 24th, 2006, Mr. Kenneth R. Stiles also served on the Hedging Committee. Mr. Stiles and Mr. Tooley are directors who are considered independent within the meaning of applicable securities legislation, whereas Mr. Moffat is a member of management. The Hedging Committee reviews the Company's mark-to-market hedge position and is responsible for assessing the adequacy of hedging activities relative to the total risk exposure. As necessary, the Hedging Committee will recommend changes to the hedging strategy.

Nominating Committee (Effective December 31, 2005)

The Nominating Committee is comprised of Messrs. Daryl K. Seaman (Chairman), Henry R. Lawrie and Jack W. Peltier, directors who are considered independent within the meaning of applicable securities legislation. The Nominating Committee is responsible for recommending to the Board new candidates for election to the Board, for determining the competencies and skills the Board considers necessary for the Board as a whole to possess, and for reviewing the comprehensive orientation and training of new and existing directors.

Disclosure Committee (Effective December 31, 2005)

The Disclosure Committee is comprised of Messrs. Robert G. Moffat (Chairman), Matthew L. Janisch, Thomas J. Ruissen, John W. Essex and David A. Fleming, all of whom are members of management. The Disclosure Committee's primary responsibilities are to oversee the Corporation's disclosure practices and to ensure the Corporation meets all regulatory disclosure requirements. In particular, the Disclosure Committee will review and, as necessary, help revise the Corporation's controls and other procedures to ensure that information required to be disclosed to securities regulators and the Toronto Stock Exchange, and other information the Corporation will disclose to the public is recorded, processed, summarized and reported accurately and on a timely basis. The Board of Directors has overall responsibility for approving the Corporation's major communications, including annual and quarterly reports, financing documents and material press releases.

OTHER CORPORATE GOVERNANCE MATTERS

Code of Business Conduct

The Corporation has adopted a Code of Business Conduct, which applies to all directors, officers, employees and consultants of the Corporation. The Board of Directors is responsible for monitoring compliance with the Code of Business Conduct and for approving waivers of such standards by any director or officer. Waivers in respect of employees or consultants may be given by the President and Chief Executive Officer who must report any such waiver to the Board. No such waivers for any of the Corporation's directors, officers, employees or consultants have been granted as of the date hereof.

The Corporation's Code of Business Conduct addresses such matters as conflicts of interest, confidential information, and the protection and proper use of the Corporation's assets. All directors, officers, employees and consultants are encouraged to report violations of the Code of Business Conduct in accordance with the procedures described in the Corporation's whistleblower policy. The whistleblower policy is available on the Corporation's website at **www.bvenergy.com**. In addition, shareholders can provide feedback to the Corporation through email or telephone.

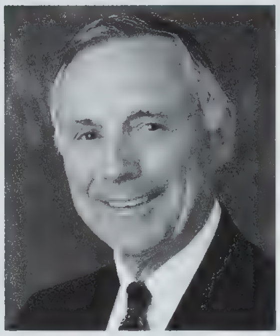
A complete copy of the Corporation's Code of Business Conduct is available on SEDAR at **www.sedar.com**.

Corporate Disclosure Policy

The Corporation has also adopted a Disclosure Policy which confirms in writing the existing disclosure policies and practices of the Corporation. The goal of the policy is to promote appropriate and consistent disclosure practices aimed at accurate, informative, timely and broadly disseminated disclosure of material information to the market and promote compliance among the directors, officers, employees and consultants of the Corporation.

The policy covers written disclosure in documents filed with the securities commissions and stock exchanges, written statements made in the Corporation's annual and quarterly reports, news releases, letters to shareholders and other documents released to the public, the content of which would reasonably be expected to affect the market price or value of the Corporation's securities, or a reasonable investor's investment decision, including information contained on the Corporation's website and other electronic communications. The policy also extends to public oral statements made in meetings and telephone conversations with analysts and investors, interviews with the media, press conferences, conference calls and in other circumstances in which it is reasonable to expect that the information will become generally disclosed.

Board of Directors



DARYL K. SEAMAN

CHAIRMAN OF THE BOARD

Mr. Seaman is Chairman of the Board and a founder of Bow Valley Energy Ltd. From 1992 to present, he has been Chairman and President of Dox Investments Inc., a private holding company. From 1949 through 1992, he was Chairman, Chief Executive Officer and Director of Bow Valley Industries Ltd. and its predecessor companies, which he co-founded. Other directorships include Far West Mining Ltd. and Western Lakota Energy Services Ltd. Mr. Seaman is an Officer of the Order of Canada.

ROBERT G. MOFFAT

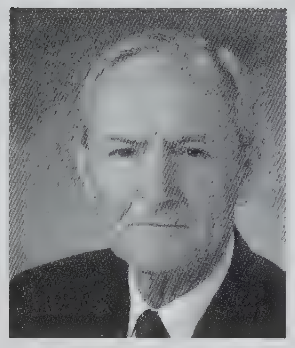
PRESIDENT, CHIEF EXECUTIVE OFFICER, DIRECTOR

Mr. Moffat, is President, Chief Executive Officer and a Director of Bow Valley Energy Ltd. Mr. Moffat graduated from Queen's University, Kingston, Ontario, Canada in 1977. From 1995 to 2001, he was President, Chief Executive Officer and Director of Courage Energy Inc. From 1992 through 1995, he was President of Springsyde Resources Ltd., a company he founded and which later became Courage Energy Inc. through an amalgamation and name change in 1995. Prior thereto, he was Vice President and Director of Highridge Exploration Ltd. Mr. Moffat has been instrumental in directing corporate growth through oil and natural gas exploration in Canada, the United States and internationally.

HENRY R. LAWRIE

DIRECTOR

Mr. Lawrie joined Price Waterhouse in Calgary, was admitted to partnership in 1971, and served as a partner in Calgary, Toronto and Midland, Texas. He was Co-chairman, Price Waterhouse Canada Oil and Gas Specialty; Managing Partner, Price Waterhouse, Calgary; and was twice elected to the Price Waterhouse Canada Policy Board. He retired in June 1997. In addition, Mr. Lawrie was Chief Accountant of the Alberta Securities Commission from 1997 through 2001, Chair of the Oil and Gas Securities Taskforce and Advisor to the Commission. Mr. Lawrie is a director of several public companies including Berens Energy Ltd., CCR Technologies Ltd., Delphi Energy Corp., Flagship Energy Inc., Storm Exploration Inc., and Western Lakota Energy Services Inc.



JACK PELTIER

DIRECTOR

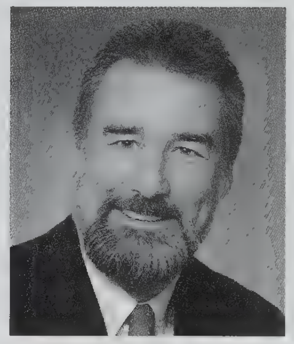
Mr Peltier is currently President of Ipperwash Resources Ltd, a company engaged in oil and gas production, investments and consulting services. Mr. Peltier is presently a director or trustee of several public companies including Paramount Energy Trust, Thunder Energy Trust, Ember Resources Inc, Masters Energy Inc, Gienow Income Fund, Tundra Oil and Gas Ltd. and Strand Oil and Gas Ltd., as well as Bow Valley Energy Ltd.

KENNETH R. STILES

May 3, 1939 – February 24, 2006

DIRECTOR

Mr. Stiles was a Director of Bow Valley Energy Ltd. until February 24, 2006. Mr. Stiles was a Director of Echo Glen Consulting Ltd. and several other private companies. From 1992 through 2001, he was Executive Vice President and Secretary of Dox Investments Inc., a private holding company. From 1994 through 2001, he was a Director of Courage Energy Inc., a public oil and gas company, and from 2000 to 2001, served as Chairman of that company. From 1996 through 1999, Mr. Stiles was a Director of We X.L. Holdings Corporation, a public energy management company, as well as a Director of Highridge Exploration Ltd., a public oil and gas company.



GEORGE Y. TOOLEY

DIRECTOR

Currently, Mr. Tooley is a principal of the Petrovest Group, Mr. Tooley has been actively involved in the financing and administration of petroleum and mining projects for the last 16 years. Presently, Mr. Tooley is President of a private holding company. From 1995 to 2005, he was Vice President and Director of Fairstar Explorations Inc., a public mining exploration company. From 1992 through 2001, Mr. Tooley was a Director of Courage Energy Inc., a public oil and gas company.

Five Year Summary

	2005	2004	2003	2002	2001
Financial *($000s except per share amounts)*				*(restated)*	
Revenue	62,940	37,419	42,574	31,605	24,510
Funds flow	32,054	14,471	23,633	13,613	16,645
Basic per share ($/share)	0.49	0.23	0.38	0.27	0.42
Diluted per share ($/share)	0.47	0.23	0.38	0.27	0.40
Earnings (loss)	6,478	(3,201)	3,849	4,603	(15,933)
Basic per share ($/share)	0.10	(0.05)	0.06	0.09	(0.40)
Diluted per share ($/share)	0.10	(0.05)	0.06	0.09	(0.40)
Capital expenditures	39,513	28,873	27,983	51,021	12,619
Total assets	130,346	104,258	90,463	85,144	38,293
Working capital (deficit)	(4,759)	(16,023)	(2,829)	(4,850)	9,651
Long-term debt	–	–	–	–	(500)
Total net working capital (deficit)	(4,759)	(16,023)	(2,829)	(4,850)	9,151
Shares (000s)					
Basic outstanding at year-end	69,225	64,642	64,510	61,844	45,450
Weighted average	65,693	64,578	62,019	51,040	39,787

	2005	2004	2003	2002	2001
Operating					
Sales volumes					
Crude oil and NGL (bbl/d)					
U.K.	815	497	1,002	1,358	1,472
Canada	276	200	326	101	–
Total	1,091	697	1,328	1,459	1,472
Natural gas (mmcf/d)					
U.K.	2.3	3.3	3.9	2.0	2.7
Canada	10.5	8.3	7.2	3.7	–
Total	12.8	11.6	11.1	5.7	2.7
Barrels of oil equivalent (boe/d)					
U.K.	1,195	1,053	1,652	1,698	1,927
Canada	2,032	1,590	1,525	711	–
Total	3,227	2,643	3,177	2,409	1,927
Reserves					
Crude oil and NGL (mbbls)					
Proved					
U.K.	3,247	550	834	1,980	2,180
Canada	494	315	189	250	–
Probable					
U.K.	7,016	10,850	11,810	12,600	10,990
Canada	228	182	64	70	–
Natural gas (bcf)					
Proved					
U.K.	4.4	6.0	7.3	9.3	9.9
Canada	14.8	13.2	8.1	9.7	–
Probable					
U.K.	11.3	12.4	14.4	20.3	16.1
Canada	6.7	6.5	2.9	2.5	–
Undeveloped land (net acres – 000s)					
U.K.	79	42	41	104	75
Canada	60	51	45	38	10
France	–	–	–	283	486
Total	139	93	86	425	571

Corporate Information

Board of Directors

Daryl K. Seaman, O.C. (1)(4)
Chairman of the Board
Calgary, Alberta

Robert G. Moffat
President, Chief Executive Officer and Director
Calgary, Alberta

Henry R. Lawrie (1)(2)(3)(4)
Director
Calgary, Alberta

***Kenneth R. Stiles** (2)(3)
Director
Calgary, Alberta

George Y. Tooley (1)(2)
Director
Pointe-Claire, Quebec

Jack Peltier (2)(3)(4)
Director
Calgary, Alberta

* Mr. Stiles served as a Director until his death on February 24, 2006.

(1) Member of the Compensation and Corporate Governance Committee
(2) Member of the Audit Committee
(3) Member of the Reserves Committee
(4) Member of the Nominating Committee

Management

Robert G. Moffat
President and Chief Executive Officer

John W. Essex
Vice President, Operations

Nick J. Fairbrother
Director, International Business Development

David A. Fleming
Vice President, International

Matthew L. Janisch
Vice President, Finance and Chief Financial Officer

Tom J. Ruissen
Vice President, Exploration

Corporate Secretary

Robert J. (Bob) Engbloom
Senior Parter, Macleod Dixon LLP

Corporate Office

1200, 333 – 7th Avenue S.W.
Calgary, Alberta, Canada
T2P 2Z1
Phone: (403) 232-0292
Fax: (403) 232-8920
E-mail: bve@bvenergy.com
Website: www.bvenergy.com

United Kingdom Office

Bow Valley Petroleum (UK) Limited
5 Eastgate Court, High Street
Guildford, Surrey, England
GU1 3DE
Phone: +44 (0) 1483-568-667
Fax: +44 (0) 1483-562-667

Board of Directors (U.K.)

Bow Valley Petroleum (UK) Limited
Christopher D. Longman
David A. Fleming
Robert G. Moffat
Walter R. Roberts

Auditors

PricewaterhouseCoopers LLP

Bankers

Bank of Scotland
National Bank of Canada

Registrar and Transfer Agent

Valiant Trust Company

Solicitors

Macleod Dixon LLP
Dundas & Wilson

Independent Engineers

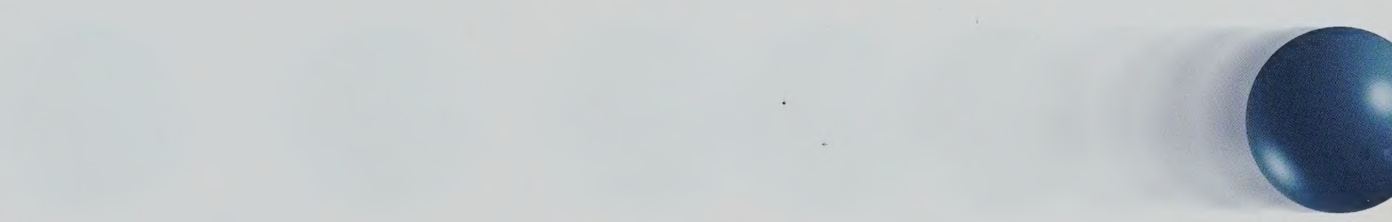
GLJ Petroleum Consultants Ltd.

Stock Exchange Listing

Toronto Stock Exchange
Trading Symbol: BVX

Annual Information Form

The Annual Information Form can be obtained on request from the Company.



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